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THESIS

The Development of Our Latin  
American Trade Since 1933

by

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## INTRODUCTION

The following study of our Latin American trade has been made with three purposes in mind; namely, determining the value that can be attached to our present policies designed to encourage trade with the Latin countries, investigating the possibilities of increasing this trade in the future, and presenting a survey of the history and problems of our trade with the southern countries since 1933. With these three objectives in mind, we have divided our study roughly into three chronological sections. The first section covers the period from 1933 to the outbreak of war in 1939 and is characterized chiefly by the Good Neighbor Policy and the Reciprocal Trade Agreements Policy. The second section covers the present war period and is characterized principally by a new interest in Latin American trade, closer political ties between the Americas, and a greater amount of attention to the difficulties confronting increased trade with the southern countries. The third section points out possibilities of the effects that various factors might have on our future trade relations with Latin America and endeavors to lay down certain general lines of action that must be followed if we are to have an increased volume of trade between this country and Latin America.





## FOREWORD

### BACKGROUND OF OUR LATIN AMERICAN RELATION

"After the Congress of Panama, when Adams and Clay were strongly advocating inter-American approximation, the cause of events had tended to foster suspicion and rancor in the south, isolation and indifference in the north. The annexation of Texas, the Mexican War and the consequent territorial expansion, William Walker's filibustering expeditions, the various incidents that changed the spirit of the Monroe Doctrine and destroyed faith in it, and finally, sporadic expressions of the 'manifest destiny' of the United States to extend its domination southwards, were all matters that aroused visible antagonism for many years in the Iberian republics. On the other hand, the Civil War and the stormy reconstruction period that followed caused the United States to concentrate its energies on the fundamental and urgent task of healing the wounds inflicted on national prosperity by that tragic internal struggle, and thus to slight the task of fraternizing with the southern countries. The cause and effect of that supine ignorance prevalent in the United States about those nations which a mendacious legend had painted in the popular imagination as incapable of economic production and inept in self-government, and as the irretrievable



prey of backwardness, poverty, religious fanaticism, and perpetual anarchy.

"But as the United States grew in population, commerce, and industry, the country began to look toward the vast expanse from the Rio Grande to Cape Horn. During the decade from 1870-1880, foreign trade figures began to make it clear to statesmen and financiers that the United States ought to intensify relations of every kind with the Iberian republics. Statistics showed with cold eloquence that in its dealings with Latin America the United States had an unfavorable trade balance while the balance of trade with Europe was greatly in its favor. However, Latin America as a whole bought from Europe much more than it sold to that continent, European goods virtually enjoying a monopoly in the southern nations of the Western Hemisphere. One North American traveler described the situation in these words:

'From the little pin with which the lady fastens her beau-catching ribbons to the grand piano with which she enlivens and enchants the hearing of all her household; from the tiniest thread and tack and tool needed in the mechanic arts to the largest plows and harrows...; the drugs ... sold by the apothecaries; the fermented and spiritous utensils are with rare exceptions of English, German, Spanish, or Italian manufacturing.'

"In 1880 began the first move toward the Pan-American Union and its policy of pushing peaceful commercial relations. Senator Davis presented to the Senate a bill 'for the encouragement of closer commercial



relations' between the United States and Latin America. The preamble to the bill stated that to the south of the United States were industrious and progressive nations, 'with whom the people of the United States hold, and desire to maintain, the most friendly relations and with whom a closer and reciprocal interest in trade and commerce ought to be encouraged.' In 1889 the Pan-American Union was formed. Along the path of Pan-Americanism there have been stumbling and delay, slips and back-sliding. It is easy to observe that from the Second Conference to the Sixth, inclusive, reasons for antagonism, suspicion and prejudice between Latin and Anglo-Saxon America tainted the continental atmosphere. But withal, the contact of men and nationalities in the deliberative halls had the slow and subtle, but strong and continuous effect of smoothing asperities, dissolving prejudices, checking lack of confidence, and placating animosity."(1)

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(1) Alfaro, Ricardo F. (former President of Panama), "A Half Century of Pan-Americanism", Pan-American Bulletin, April 1940, p. 216





## CHAPTER I

### OUR NEW ROLE IN LATIN AMERICA

In 1933, with the inauguration of President Roosevelt, a new kind of relations with the American nations to the South was begun. It consisted of the Good Neighbor Policy that defined the Good Neighbor as one who "resolutely respects himself, and, because he does so, respects the rights of others." In concrete terms, this policy meant, principally, that the United States had abandoned her interventionist policy which had consisted of getting herself very much disliked and had adopted a policy of cooperation and mutual trust with the Latin American countries.(1)

Sumner Welles further explained our new attitude toward Latin America in the following words:

"Our new policy of the Good Neighbor has been predicated upon the belief of this government that there should exist an inter-American political relationship based upon a recognition of actual and not theoretical equality between the American republics; on a complete forbearance from interference by any one republic in the domestic concerns of any other; on economic cooperation; and finally, on the common realization that, in the world at large, all of the American republics confront the same international problems, and that, in their relations with non-American powers, the welfare and security

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(1) McCulloch, J. I. B., "Challenge to the Americas," Foreign Policy Association Headline Book, New York, 1940, pp. 7-9



of any one of them cannot be a matter of indifference to the others."(1)

The establishment of this doctrine of mutual trust and cooperation in our relations with the Latin American countries has not been easy; the Latins did not trust the "Colossus of the North." There were certain events in our history that had left scars in the memories of our neighbors. We had taken a huge slice of Mexico in 1849; we had backed a revolt on the Isthmus of Panama in 1903; in the twenties our marines were in Haiti; we had control of the Dominican Republic finances, and we were supervising elections in Nicaragua. These were just a few of the acts of our government that had earned for us sneers of "Yankee Imperialism" and "Dollar Diplomacy."(2)

By dint of hard work on the part of our government officials, led by Cordell Hull, and by reason of the precarious state of world security, we had succeeded to an amazing extent at the outbreak of the war in blotting out the memory and the hard feelings of the past and in creating a solid foundation for future relations between the American republics.

Some of the ways in which the government has endeavored to act upon its declared policy have been:

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(1) Ybarra, T. R., America Faces South, Dodd, Mead and Company (New York, 1939) p. 305

(2) McCulloch, J. I. B., Op. Cit., p. 8  
Ybarra, T. R., Op. Cit., pp. 108-122 and p. 320



- (1) to establish an Export-Import Bank to help finance trade between the United States and Latin America,
- (2) to abrogate the treaty with Cuba that gave the United States the right to interfere in Cuban affairs,
- (3) to withdraw our Marines from Haiti and leave the affairs of the nation solely to the Haitians,
- (4) to sign reciprocal trade agreements,
- (5) to help bring about the end of the war between Bolivia and Paraguay, and
- (6) to open United States Military and Naval schools to students from Latin American countries.(1)

A further example of the effort put forth by our government is evidenced by the following words of Cordell Hull concerning the Montevideo Conference in 1933:

"The atmosphere was very bad when the conference started. Some of the South Americans who were delegates to it, accustomed to using an anti-American attitude for political purposes, were reserved and suspicious. I adopted a method of calling informally on them. I would simply let them know by telephone that I was coming to see them. If they were busy, I saw someone else at their offices; if not, I saw them personally. Soon a free and easy spirit was established; why, I talked with one of them while he was in his bath! - there is nothing like getting to know foreign statesmen. And they began to come and see me in the same informal manner. As a consequence, before the end of the conference, there was an enormous improvement in the atmosphere."(2)

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(1) Ibid, pp. 306-316

(2) Ibid, pp. 305-306





The second factor that has helped us in establishing our new doctrine has been the apparent collapse of security in the world. The sorry plight of the weak nations, which until the present war in Europe consisted of attacks on Ethiopia, China, Austria, Albania, put a jolt of fear into the Latins, a fear that was intensified by the rumor that Hitler planned to gain control of Brazil. (1) Furthermore, Britain's surrender to the Axis at Munich in 1938 made our southern neighbors realize that they could no longer depend upon the British fleet to keep the threat of invasion away from their shores. (2) The immediate result of all these events was that at the Eighth Pan-American Conference held at Lima, Peru, in 1938, the American republics formally agreed to consult together should their security appear to be in danger. (3)

The results of several years of the Good Neighbor Policy in overcoming the animosity of the Latins toward us must be measured not in absolute terms, but rather in relative terms. To be sure, the Latins, in general, do not think of us in any higher terms than as mere foreigners and rather queer ones at that, but they at least no longer think of Uncle Sam as "a swaggering, arrogant, uncouth barbarian; as a ruthless collector, at the point of a pistol, of money unscrupulously amassed through shady deals by

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(1) McCulloch, J. I. B., Op. Cit., p. 9

(2) Ybarra, T. R., Op. Cit., p. 116

(3) McCulloch, J. I. B., Op. Cit., p. 11



Americans in Latin America; as a brandisher of the "Big Stick," who scorning the polite circumlocution so dear to the Latins, thinks only of exploiting others for his own selfish ends."(1) Being considered merely as an outsider is a much higher compliment than being called a big bad wolf.(2)

In summing up the results of the Good Neighbor Policy to the time of the present war, it is safe to say that the foundation had been laid for real cooperation between the United States and the other American republics. The removal of many remains of "Yankee Imperialism" had tended to foster greater trust and better understanding - thus making way for closer political ties and consequently greater economic cooperation in the interests of the defense and the welfare of the Western Hemisphere.

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(1) Ibid, p. 11

(2) Ybarra, T. R., Op. Cit., pp. 22-23



## CHAPTER II

### RECIPROCITY

With the advent of our program of greater understanding and cooperation between the American republics and the United States, one would naturally expect the formation of a new trade program that would result in increased trade. Although we did not adopt a specific trade program for increasing our Latin American trade, we did adopt, in 1934, a general trade program that served until the outbreak of the present war as the principal means of stimulating commercial relations with the southern countries.

The reciprocal trade agreements program was initiated under the Trade Agreements Act of 1934 "for the purpose of expanding foreign markets for the products of the United States by regulating the admission of foreign products into the United States in accordance with the characteristics and needs of various branches of American production so that foreign markets will be made available to those branches of American production which require and are capable of developing such outlets by affording corresponding market opportunities for foreign products in the United States." To achieve this purpose the statute authorized the President (1) "to enter into foreign trade agreements with foreign governments," and (2) "to proclaim





such modifications of existing duties ... or such additional import restrictions, or such continuance ... of existing customs or excise treatment of any article covered by foreign trade agreements, as are required or appropriate to carry out such agreements." The President may not modify existing customs duties beyond 50% nor may he transfer any article between the dutiable and free lists. The duties thus proclaimed by the President are applicable generally to the products of all countries. However, the President may suggest their application to the products of any country "because of its discriminatory treatment of American commerce, or because of other acts or policies."(1)

The procedure of the government in regard to formulating trade agreements under the Act has been to find products in a foreign country that can be imported into this country without interfering greatly with domestic production and also finding products that we can export to that foreign country without offering serious competition to the industries of that country. Francis Bowes Sayre, Assistant Secretary of State, explains the procedure in more detail as follows:

"For the administration of the Act a carefully devised procedure has been set up on numerous inter-departmental committees. The central agency for operating the machinery is the Committee on Trade Agreements, composed of

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(1) Statutes of the United States of America, Washington, Government Printing Office, 1934, 73rd Congress, 2nd Session, 1934, pp. 943-945.



representatives of the Departments of State, Treasury, Agriculture and Commerce and of the Tariff Commission. Its chairman is the Chief of the Trade Agreements Division of the Department of State. It organizes and superintends the work of various sub-committees, directs the preparation of all necessary studies, reviews recommendations of sub-committees, and is responsible with the aid of these sub-committees for formulating the draft text of all trade agreements. These draft texts and recommendations are submitted through the Secretary of State to the President for his approval.

"The Committee on Trade Agreements has organized some forty or more inter-departmental sub-committees. Some of these, known as 'country committees', are charged with studying the trade of the United States and with formulating, for the consideration of the Committee on Trade Agreements, the tentative schedule of concessions to be requested and given. Other committees are charged with studying specific commodities; still others are set up to study specialized problems, such as quotas, exchange control, and discriminations against American commerce. Particular problems of major commercial policy are referred to the Executive Committee on Commercial Policy, an inter-departmental committee under the chairmanship of an Assistant Secretary of State.

"The United States Tariff Commission prepares data covering each item on which a concession may be granted by the United States; the Department of Commerce prepares data concerning concessions which may be asked from the foreign country. Department of Agriculture experts are relied upon for studies in regard to agricultural concessions. The Treasury Department advises as to the revenue aspects of proposed concessions and as to technical questions of customs classification and administration. The State Department drafts the general provisions, conducts the actual negotiations, and functions as the coordinating agency in the entire inter-departmental trade agreements structure.

"Close touch with the business world and interested private individuals is maintained through publicly announced open hearings conducted by a special



inter-departmental committee known as the Committee for Reciprocity Information."(1)

It will be noticed from the above brief description of the reciprocal trade agreements program that the Act of 1934 contemplated our total foreign commerce and not just our Latin American. But, in spite of the fact that no word of Latin America was mentioned in the Trade Agreements Act, it can truthfully be said that reciprocity was our Latin American trade program for the period under discussion. This statement is easily borne out by the facts that there was no other policy in regard to Latin America or trade in general and that of all the trade agreements in effect in 1939 two-thirds of them were with our southern neighbors.(2) It is apparent, then, that even though we had no policy expressly formed for our relations with the southern countries, we were not without one, for reciprocity served as the basis and mode of trying to increase our Latin American trade even though it was used for the same purpose in relation to other countries, too.

As a prospective policy to be applied to our foreign trade we can say that the program was logical in that it provided a means through the bargaining power granted to the President for finding a common basis for trade and for overcoming excessive trade barriers and trade

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(1) Sayre, Francis Bowes, "How Trade Agreements are Made," Reprint from Foreign Affairs, Department of State, April, 1938

(2) Boston Herald, January 21, 1940





discriminations. Before the Trade Agreements Act we could rely only upon the chance that we should not be discriminated against in Latin America, and that by some happy chance our trade barriers would not greatly effect our commerce with the southern countries. Congress could not be relied upon to cope with the situation because that body of men had always made the tariff walls higher in its attempts to reform them.(1)

The Act changed our passive attitude to a more nearly positive one; it opened the way toward taking active steps in developing the commerce with our neighbors. In the next two chapters we shall see how this policy actually worked out.

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(1) O'Neal, E. A., "The Farmer Under the Reciprocal Trade Agreements," Proceedings of the Academy of Political Science, Columbia University, (New York, May 1940)

Mr. O'Neal says that the interests of our country are so diverse that "log rolling" is a natural outcome of any attempt on the part of Congress to lower tariff barriers.



### CHAPTER III

#### WHAT THE PROGRAM HAS ACCOMPLISHED: QUALITATIVE ANALYSIS

In Chapter II we described reciprocity as our Latin American trade program and stated that the policy was extremely desirable in that it opened the way toward removing excessive trade obstacles that cause a restriction of trade. In this chapter and the next we will concern ourselves chiefly with the actual benefits received from this program that envisioned leading the way toward economic disarmament. The present chapter will attempt to analyze what may be called the qualitative aspects of the treaties and Chapter IV will discuss the quantitative results.

It is impossible to state here all the benefits that we received in regard to concessions and reduced trade barriers, but a survey of a few of the trade treaties with Latin American countries will give some idea of the extent to which the program went in this direction.

#### Venezuela(1)

Tariff reductions granted to the United States by Venezuela under this treaty covered thirty-five items representing a value of more than \$5,000,000 and bindings (assurances against upward revision of the tariff) covered

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(1) Trade Agreement between the U. S. and Venezuela, signed Nov. 6, 1939, Dept. of State (Washington, D. C., 1939)



sixty-one items representing a value of over \$13,000,000 on the basis of our 1938 trade with that country. Both bindings and concessions together totaled 35.9% of total exports to Venezuela according to 1938 figures. The concessions obtained from Venezuela cover such important American exports to that country as wheat flour, outmeal, prepared milks, hog lard, lumber, iron and steel products, automotive products and accessories, radios, refrigerators, engines, pharmaceutical products, and paints.

The tariff concessions granted by the United States to Venezuela cover fourteen items which in 1938 accounted for 88.6% of the total value of the United States imports from that country. The concessions granted to Venezuela include a reduction of 50% on the import tax on crude petroleum and fuel oil on an annual quota of imports not in excess of 5% of the total quantity of crude petroleum processed in refineries in the continental United States during the preceding year. The other concessions granted to Venezuela consist of reductions on ground barbasco root and tonka beans, and bindings on such products as cacao, divi-divi, crude petroleum and fuel oil for ships' supplies, and raw reptile skins.

It will be noted from this brief survey of the treaty with Venezuela that we gained concessions chiefly on manufactured products and temperate zone agricultural products and that we granted concessions on crude petroleum





and tropical products. In other words, we gave concessions on products that, with the exception of petroleum, we have to import and Venezuela gave concessions on products that she has to import. Petroleum, the one exception to this statement, is on a quota basis, so that our petroleum industry is afforded only a negligible amount of competition. Putting a quota on a product is certainly not in the best interests of increasing trade with Venezuela, but the mere fact that we have gone far enough to let any foreign petroleum into this country is a step in the right direction.

#### Nicaragua(1)

Concessions granted to the United States by Nicaragua consisted of reductions on nine items and bindings on twenty-four others. The products affected were proprietary and patent medicines, paints and varnishes, lard, pressed fruits, preserved vegetables, dried fruits, preserved fruits, and milk products. Most machinery and related products were already on the free list and duties were low on the others.

Concessions granted to Nicaragua by the United States are necessarily few in number due to the fact that over 96% of our imports from Nicaragua are duty free.(2) A reduction was granted on "Peru" balsam and bindings were

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(1) Trade Agreement between the U. S. and Nicaragua, signed March 11, 1936, Dept. of State (Washington, D. C., 1936)

(2) Nicaragua has duties for revenue purposes only



given on coffee, cocoa beans, bananas, cabinet woods in the log, deerskins, logwood, crude epicoe, reptile skins, and turtles.

Once again we can see the complementary character of the trade agreements. Both countries received concessions on products that would not compete with the industries and agriculture of the other country and granted concessions on goods that they would have to import.

Ecuador(1)

Nearly one-half of United States exports to Ecuador, which amounted to a total of a little over \$5,000,000 in 1937, receive direct benefits from the agreement. About 22% of these total exports benefit from duty reductions and about 26% are safeguarded by assurances against duty increases. Four leading American exports, flour, hog lard, passenger automobiles, and lubricants benefit from substantial reductions in tariff rates, while motor trucks, agricultural hand tools, office appliances, and certain electrical apparatus are among the more important products assured of continued entry under existing moderate rates. In addition, the agreement continued the extension to a long list of United States export commodities of the special schedule of tariff rates which are lower than the general rates of duty and which are granted to imports from

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(1) Trade Agreement between the U. S. and Ecuador, signed August 6, 1938, Dept. of State (Washington, D. C., 1938)



certain countries with which Ecuador has commercial agreements. This special schedule includes rates 30% below the general duties, affecting such important commodities as radio apparatus, cutlery, certain textiles, and vegetable oils. Over two hundred individual products are benefited by the provisions of the schedule.

Concessions granted by the United States to Ecuador consist of assurances of continued free entry on bananas and plantains, coffee, cocoa beans, cinchona bark, kapok, annatto, raw reptile skins, balsa wood, and tagua nuts, and reductions on "Panama" hats, naranjilla juice, and on dried bananas.

This treaty, like the others, shows its complementary character. Ecuador takes manufactured products and certain temperate zone agricultural products that she must import, and we take tropical products that we must import.

The complementary character of the above agreements, which are typical of all that were concluded, can not be emphasized too much, for the whole basis of the treaties rested upon finding a country whose exports and imports would fit into our economic structure. This fact was one of the big flaws of the program because it is evident that it would be impossible to conclude a treaty with countries that had economic structures that were similar to ours rather than complementary. Argentina is a notable





example of the way that reciprocity failed when we tried to apply it to a country whose economic structure was not complementary to ours. Argentina has about the same climate as the United States and, consequently, competes with us in agricultural products. We can not import Argentina's meat and wheat, typical of her main exports, because we have surpluses of our own that we must export.(1) Since we can not grant Argentina any concessions, we cannot expect to receive any, and consequently our trade agreement program is of no value as far as our trade with that country is concerned.

The fact that the program functions only with countries having economic structures complementary to ours and not with countries that have a competitive structure earns for these programs the term "passive." In the last chapter we said that reciprocity changed our passive attitude to a more nearly positive one in that it opened the way toward taking active steps in increasing our Latin American trade. The program did precisely this as the agreements that have been presented show. We did take active steps which we could not take before the program went into effect; we succeeded in lowering tariff barriers both for our products and for Latin American products. But the program was still on the passive side in that it did not

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(1) McCulloch, J. I. B., Op. Cit., p. 47  
Ybarra, T. R., Op. Cit., pp. 122-135



enable us to go far enough toward increasing our trade. Under the program we could only strive to increase commercial relations by finding a complementary basis for trading and then fostering this natural situation by sweeping away artificial trade barriers. We were powerless to act when we found a country that had no complementary basis for trade with us. A really positive program would have taken active steps toward changing competitive economic structures into complementary ones, or else would have changed our structure in order that competitive products would have given way to production of complementary ones so that increased trade would have been developed and not merely discovered.

A further criticism that might be made about the complementary character of the agreements is that since trade generally arises wherever there is an economic basis for an exchange of goods, a mere agreement between countries to exchange these goods is nothing but the acknowledgment of an already existing fact. This seems rather an unfair criticism because very often there are artificial barriers, such as quotas and duties, that overrule economic forces. The trade agreements, by reducing these artificial barriers, do more than to extend blessings to an already existing trade.

In the final analysis we are chiefly concerned with actual dollar and cents results of the trade programs, and it is this quantitative aspect of the agreements that we will attempt to discuss in the next chapter.



## CHAPTER IV

### THE BENEFITS RECEIVED FROM THE TRADE AGREEMENTS: QUANTITATIVE ANALYSIS

Any discussion of trade agreements puts one in the embarrassing position of claiming, without being able to prove this claim, that the treaties bring about an increased volume of trade through their influence on reducing trade barriers. Undoubtedly, as we have said before, the fundamental idea behind the treaties is excellent; it is logical to claim that the treaties are beneficial to trade since they abolish artificial trade barriers and permit trade to flow freely according to the natural advantages that a country may have in the production of certain products. But, unfortunately, we cannot prove definitely with figures that we are correct in our conclusion because the Department of Commerce, recognizing countless obstacles in the way, has not produced figures to show just how the products covered by the agreements reacted before and after the passage of the trade agreements. This information is important because we should have it to know whether the change in the amount of trade with agreement countries as compared to non-agreement countries was due to products covered by agreements or to products not covered by agreements. The importance of such information can be illustrated by the following theoretical examples. (1) We may have a case where our import trade has increased at a more rapid





rate with agreement country A than with non-agreement country B. Now, if we find that our increased trade with A was the result of greater purchases of products upon which we gave that country concessions, we can say that the concessions (and, consequently, the trade agreement) were responsible for the increased trade. If, on the other hand, we find that the increased trade was due to greater purchases of non-agreement products, we are forced to say that the agreement is a failure because, evidently, it did not help increase trade. (2) Now suppose that we have a case where our imports increase at a more rapid rate from non-agreement country B than from agreement country A. Again we must examine the products. If we find here that the greater increase of trade from the non-agreement country was due to products not covered by the agreement with A, we can not say that the agreement was a failure, for it can not be expected to increase the trade of the products that it does not grant concessions on. But if the more rapid rate of increase of trade with B, the non-agreement country, was due to products covered by the agreement with A, then we can say that the agreement was a failure, because trade agreements are supposed to increase the trade of the products upon which concessions are given. Therefore we must judge trade agreements not only by figures showing the change in the amount of trade with agreement countries as compared to non-agreement countries, but also by figures showing to what



extent agreement products were responsible for the change. We have presented examples only for imports, but the same line of reasoning also applies to exports.

Although we do have some data on the reactions of agreement products, which will be presented later in the chapter, we call attention now to this problem of breaking trade down into products mainly in order that the figures below may be properly qualified. We want the reader to realize that total figures in regard to the value of trade with agreement countries must not be accepted at face value.

It can be seen from the accompanying chart that the results of our trade agreement program as applied to the world present a pleasing picture on the export side, at least. Our exports to agreement countries increased 61.2% in the 1937-38 period over the 1934-35 period as compared to 37.9% for our exports to non-agreement countries. Our imports from agreement countries in 1937-38 increased 35.2% over 1934-35 as compared to 37.0% for non-agreement countries, evidencing a slightly larger increase from non-agreement countries than from agreement countries. It is interesting to note here that we did much better as a seller than as a buyer under the agreements and thereby, either through necessity or lethargy, retained our unhealthy mercantilist policy of "sell everything and buy nothing."

With the above paragraph as a background for the general effects of the trade agreements program the world



# CHART I

## COMPARATIVE RESULTS UNDER THE TRADE AGREEMENTS PROGRAM

<u>Item</u>	<u>Comparison of 1937-38 with 1934-35</u>		<u>Change</u>	
	<u>1934 and 1935 Average Value</u>	<u>1937 and 1938 Average Value</u>	<u>Value</u>	<u>Per Cent</u>
<u>U. S. Exports</u> (including re-exports)				
Total, all trade agreement countries	759.8	1,224.8	465.0	61.2
Total, all non-agreement countries	1,448.0	1,996.8	548.0	37.9
<u>General U. S. Imports</u>				
Total, all trade agreement countries	793.9	1,073.6	297.7	35.2
Total, all non-agreement countries	1,057.4	1,448.5	391.1	37.0

Reprint from Commerce Reports, U. S. Department of Commerce,  
Washington, D. C., Feb. 18, 1939





over, let us pay particular attention to Latin America. Here we find that our export trade with agreement countries for the period 1937-38 increased 47.2% over 1934-35 as compared to 33.3% for non-agreement countries, while our import trade with agreement countries increased only 49.3% as compared to 54.5% with non-agreement countries. These figures again show a more rapid rate of increase in our exports than in our imports. In fact, our exports increased at such a rapid rate that in 1938 our traditional unfavorable balance of trade with Latin America was changed to a favorable one.(1)

While these figures really should be broken down into products in order to have an accurate picture of the results of the trade agreements program, as they are now presented they are by no means worthless in determining the effects of reciprocity, for the trade agreements were the main force operating to distinguish our trade with agreement countries from our trade with non-agreement countries.

However, if we consider the reactions of certain products in our trade with agreement and non-agreement countries we have a different picture than if we looked at just the total trade figures. The total figures show that our imports from agreement countries increased at a slower pace

(1) Reprint from Commerce Reports, U. S. Department of Commerce, (Washington, D. C., Feb. 18, 1939)  
U. S. Department of Commerce, Foreign Trade of the U. S. for Calendar Year of 1938, Government Printing Office, (Washington, D. C.), pp. 48-50



than our imports from non-agreement countries, and, consequently, indicate that as far as our import trade was concerned our trade program was a failure. On the other hand, if we look at the products involved, we find evidence to combat this conclusion. In 1937, the greater increase of imports from non-agreement countries than from agreement countries was due to heavy imports of raw materials and agricultural products, chiefly rubber, wool, tin, copper, hides and skins, and grain fodder. These products, with the exception of nickel, are not covered by agreements. The raw material imports were due to increased industrial activity at home and the consequent need of more materials. The increased imports of agricultural products were due to droughts here and the resulting need of importing agricultural products instead of exporting them. In 1938, due to the decline in industrial activity and better United States crops, our imports of these products declined with the result that imports from non-agreement countries showed a more rapid rate of decline than imports from agreement countries. This same situation can be seen in 1939. For the first six months of this year imports from agreement countries increased at a more rapid rate than from non-agreement countries but due to the greater industrial activity and the consequent increased imports of the same products named above, the difference in the rate of increase of imports from agreement countries was not so sharp for twelve



months as for six months.(1) Since non-agreement products were responsible for the greater trade gains from non-agreement countries than from agreement countries, we can not say the program was a failure. Trade agreements can not be expected to increase the trade of the products that they do not cover.

Secretary of Agriculture Wallace exhibits an example of the extent to which agricultural products in world trade benefited under the agreements. Mr. Wallace praised the agreements in the following words:

"Our agricultural exports to the sixteen countries with which trade agreements were in effect during the entire fiscal year 1938-39 were 15% higher than in the same countries in the fiscal year 1935-36. On the other hand, our farm exports to all other countries declined 19% during this particular period."(2)

If Mr. Wallace's statement is impartial, we have an excellent example of the aid given our exports by the trade agreements, for during a time when our farm exports were decreasing from non-agreement countries they were increasing to agreement countries. It is possible that these figures that Mr. Wallace exhibits are not an accurate picture of the situation, for the drought of 1934, we have seen, decreased our exports to a subnormal level, a decrease that would affect exports to agreement countries more than

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- (1) Reprints from Commerce Reports, U. S. Department of Commerce, Washington, D. C., Feb. 8, 1939, August 19, 1939, and February 17, 1940
- (2) "Agriculture and the Trade Agreements Program", speech delivered by Mr. Wallace before Congressional Hearing, Jan. 12, 1940, U. S. Department of Agriculture, Washington, D. C.





to non-agreement countries, because concessions would be granted on our farm products which we normally export only by countries that did not have a surplus of the same products.(1) Therefore, when we were again exporting our farm products in 1938-39 the return of our normal exports to agreement countries would normally register a larger percentage change than those to non-agreement countries.

Lynn R. Edminster, special assistant to the Secretary of State, in speaking on the same subject said:

"Analysis shows that most of the increase to trade agreement countries was accounted for by concession items, and that even in those trade agreement countries to which exports did not increase, our share of the total imports of such products into these countries usually increased."(2)

Mr. Edminster's statement is undoubtedly a delight to a strong advocate of trade agreements, but to a person endeavoring to be impartial in his approach, the statement's explanation of its source of information is not sufficient. The Department of Commerce has not made any such analysis, although it is possible that an equally reliable agency has done so.

The United States Tariff Commission has analyzed the reactions of a few products under the trade agreements

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- (1) Ibid, p. 3. Mr. Wallace says that "imports of agricultural goods of the kind produced in the U. S. rose considerably" for just two or three years after 1934 because of droughts in this country.
- (2) "Status of the Trade Agreements Program," speech delivered by Mr. Edminster on Dec. 1, 1939, U. S. Department of State, Washington, D. C.



program, and we have chosen four of the products at random in order to get an idea (the number of products is too small to get any definite proof from them) of the reactions of the trade agreements on the products they covered. The figures given are for the world and not just Latin America. Using 1929 as the base year equal to 100%, we find the following for the four products in 1938: the index number for leaf tobacco stood at 124% for agreement countries (countries giving concessions to us) while it stood at only 72% for non-agreement countries; the index number for glass and glassware stood at 18% for agreement countries and 52% for non-agreement countries; vegetable and vegetable preparations, 45% for agreement and 26% for non-agreement countries; grain and grain products, 53% for agreement and 44% for non-agreement countries.(1) Three of the four products selected at random show a better standing for agreement countries than for non-agreement countries. This does not prove that the program was a success, but it can not be construed as proving that it was a failure.

On the basis of the material that has been presented, we can probably conclude with a fair amount of

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(1) "Tobacco and Tobacco Products and Reciprocal Trade Agreement," U. S. Tariff Commission, Washington, D. C., May 1940, p. 7  
"Glass and Glassware," p. 3  
"Vegetable and Vegetable Preparations," p. 5  
"Grain and Grain Products," p. 9



logic on our side that the trade agreements program, when measured in terms of dollars and cents, probably did help our trade with Latin America, although the amount that it helped our exports was unjustified in view of the amount that it helped our imports.

The trade agreements program did not end at the outbreak of war in Europe, but we have dealt with it as though such were the case, for after September of 1939 trading relations with Latin America were of such an abnormal character that it would be impossible to determine with any degree of accuracy the amount of increased trade that was due to the agreements as compared to the amount due to the war. During the period that we have studied so far the agreements were the principal force in our Latin American trade relations. After September of 1939, the importance of the war pushed the importance of the trade agreements down to a negligible position.





## CHAPTER V

### TWO PROBLEMS: NAZIS AND EXPROPRIATION

Before passing on to the war period, there are two problems that arose in the period from 1933-1939 that deserve attention, particularly because we do not yet know just what their influence is going to be on the future of our Latin American trade. The first of these problems is that of Nazi penetration in the Latin American countries, and the second is that of expropriation.

Newspaper reports during the past few years have been painting a vivid picture of Nazi intrigue and attempted conquest in Latin America. The following reports are typical of such newspaper items. One report states that the attempted overthrow of the Uruguayan government by a Nazi organization in 1939 was part of the general plan to seize a large slice of South America. The seized territory would be called "New Germany." According to evidence found at the Uruguayan Congressional hearing, there exist all over Latin America German organizations which receive instructions from Germany and whose purpose is the overthrow of the Latin American republics.(1)

Another report states that the German Embassy attaches in Chile spend up to \$100,000 monthly there for propaganda purposes and that Germany buys more goods from Chile than she needs just in order to win a hold on the

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(1) Boston Globe, July 10, 1940



country. The Germans in the country, the report continues, make no attempt to conceal their activities; they even maintain a political party and send representatives to the national Chamber of Deputies.(1)

Dr. Victor Tlach, a former Austrian consul general of our Middle Atlantic states who resigned his post rather than display the swastika, is reported to have spoken the following words:

"The American people, especially the youth of this country, have no conception of the danger to the United States in the present world crisis. I am certain that South America and Mexico, where the Germans have obtained a solid foothold and where the Gringo, as Americans are called, are disliked are honeycombed with Nazis."(2)

Congressman Dies in his investigation is supposed to have found conclusive evidence that there are a million Germans in Latin America who are controlled from Berlin and most of whom have received military training in their homeland.(3)

Mr. T. R. Ybarra, who is a son of a former Venezuelan army general, says in his book, America Faces South, that the forms of Nazi penetration are many. Radio broadcasts, newspaper advertisements, lectures at the universities by German professors, and the granting of free news features to newspapers are some of the methods that

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(1) Boston Globe, July 12, 1940

(2) Boston Herald, September 13, 1940

(3) Christian Science Monitor, March 6, 1940



the Nazis use to convert the Latins to the German point of view. By exerting pressure upon the German population of the Latin countries, the Nazis have been able to raise a large following with which to further their plans in the southern countries. On the economic side, Mr. Ybarra says that by means of blocked marks Germany has purchased practically the entire output of certain principal crops of raw materials, effecting virtual economic domination of the country in question. The blocked marks, however, were becoming unpopular before the war broke out in Europe for they restricted buying to Germany and provided no exchange with which to buy in other countries. Furthermore, Germany went back on her agreements by selling her purchases to third parties, thereby depressing the prices of the products.

According to Mr. Ybarra, German successes in Latin America are not likely to meet with much success in the future because the Nazi methods hurt Latin sensibilities and because the United States is definitely beginning to combat Nazi influence with its own cultural and economic programs.(1)

In spite of the alarming reports that we receive about Nazi penetration in Latin America, there seems to be no good cause to fear that Germany will gain control over the southern countries. Several of the Latin American countries, by taking prompt action against Nazi plots, have

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(1) Ybarra, T. R. Op. Cit., pp. 53-64





let the world know that they intend to uphold their national dignity in the face of all threats.(1) Furthermore, the outbreak of the present war in Europe has shown that the Latins are predominantly in sympathy with the Allies.(2)

But whatever importance we attach to the Nazi's penetration of Latin America in regard to their gaining political control of the southern countries, we can not escape the fact that a strong organization working against us can do considerable damage toward undermining our plans for closer commercial relations with the Latins.

In spite of claims that the Nazis forced a large part of our trade out of the Latin American market, trade statistics indicate that these claims are not true. The British, and not the Americans, have been the losers at the hands of the Germans. It can be seen from chart II that the American imports from Latin America remained about the same during the years of Nazi rule while Germany's increased and Britain's decreased.

On the export side, as chart III shows, the United States and Germany steadily increased their sales while Britain decreased her sales each year.

The other problem, that of expropriation, is the result of President Roosevelt's pledge, under the Good

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(1) Ibid, p. 57

(2) McCulloch, J. I. B. Op. Cit., p. 14  
The Christian Science Monitor, Boston, April 5, 1940



# CHART II

## PERCENTAGE DISTRIBUTION, AMONG LEADING INDUSTRIAL NATIONS, OF THE AGGREGATE VALUE OF EXPORTS OF THE TWENTY LATIN AMERICAN REPUBLICS, 1912-1940 (1)

<u>Year</u>	<u>To United States</u>	<u>To United Kingdom</u>	<u>To Germany</u>	<u>To France</u>	<u>To Italy</u>	<u>To Japan</u>
1933	29.4	22.1	6.9	6.2	--	0.3
1934	29.4	20.2	7.9	5.0	--	0.4
1935	32.8	18.6	8.0	4.7	2.2	0.8
1936	32.9	18.3	8.0	5.0	1.9	1.9
1937	31.1	17.6	8.7	4.0	3.1	1.6
1938	30.6	16.8	10.4	4.1	1.6	1.3
1939	34.9	16.4	6.3	3.7	1.7	1.5
1940*	33.8	17.3	0.7	3.5	2.5	0.8

\*Preliminary, based on partial statistics

(1) U. S. Department of Commerce, Washington, D. C.



# CHART III

PERCENTAGE DISTRIBUTION, AMONG LEADING INDUSTRIAL NATIONS,  
OF THE AGGREGATE VALUE OF IMPORTS OF THE TWENTY LATIN  
AMERICAN REPUBLICS, 1912-1940 (1)

<u>Year</u>	<u>From United States</u>	<u>From United Kingdom</u>	<u>From Germany</u>	<u>From France</u>	<u>From Italy</u>	<u>From Japan</u>
1933	29.2	18.1	11.5	4.9	--	1.8
1934	30.11	17.28	9.88	4.6	--	2.8
1935	31.7	14.7	13.0	3.7	2.6	3.7
1936	31.5	13.5	15.4	3.3	2.5	2.9
1937	34.3	12.6	15.3	2.9	2.6	2.7
1938	33.9	11.6	16.2	3.3	3.0	2.6
1939	40.3	10.5	12.9	3.5	2.3	1.7
1940	49.5	11.5	1.5	2.2	2.6	2.1

(1) United States Department of Commerce, Washington, D. C.





Neighbor Policy, not to back up American dollars in the Latin countries with the United States Army and Navy. Relying upon this pledge, three of the Latin countries have seized property belonging to American citizens. Bolivia seized interests of Americans in 1938 and then made an agreement to sell the oil to Hitler. That act must have irked Mr. Hull! Chile also expropriated oil properties belonging to Americans and is now thinking of seizing valuable copper and nitrate interests owned by Americans. The seriousness of the Chilean threat of expropriation may have been noticed a few years ago by observers of the stock market. Anaconda copper fluctuated wildly up and down whenever a Chilean senator made a speech for or against expropriation. Mexico has been the third offender in regard to expropriation. In 1938, Mexico took over all the foreign owned oil companies operating in that country with only a promise of payment sometime in the future when her finances were in better condition. Mexico also made oil agreements with Germany.

The reason for these acts on the part of the governments of the southern countries is that the Latins believe that foreign investment tends to exploitation of natural resources primarily for the benefit of the foreigners. Hence there is a strong antagonism against any foreign owned natural resource property in the Latin American countries.(1) It seems that this antagonism on the part

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(1) Ybarra, T. R., Op. Cit., pp. 174-180



of the Latins could be overcome to a large extent by appointing natives to responsible positions in the American firms operating in the southern countries. This action should have the effect of removing the purely foreign flavor of the American firms and give them the appearance of being an organization of both Latins and Americans. It should also have the effect of quenching the bitterness of the young Latins who have ambitions to get ahead but find practically all of their countries' big businesses in the control of the Gringos.

Mexico is the guinea pig in expropriation. All of the Latin countries are watching the results of the Mexican seizure in order to determine their own future course in dealing with foreign investments. Bolivia and Chile would like to seize more American property, and the other Latin countries would like to make their first seizure, but none of the countries, except Mexico, has dared to expropriate American property without making immediate payment, for such a procedure is contrary to international law. Mexico is the first example of a Latin country's breaking this law and the rest of the Latin countries are waiting to see what happens before they try the same thing.(1)

If reports that have been received about the results of the Mexican Government's taking over the control

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(1) Ybarra, T. R., Op. Cit., p. 180



of the oil properties in its territory are true, we are not likely to see much more expropriation in Latin America for some time, for the Mexican Government has been reported to have admitted that the problems of finance, marketing, and labor are too difficult for the government officials to handle efficiently. Furthermore, Mexico, after expropriation, is exporting mostly crude oil whereas formerly she was exporting mostly manufactured petroleum products. This means that Mexico receives a smaller net return than formerly, and also loses the employment that resulted from manufacturing the petroleum products.(1)

If this problem of expropriation is not solved, it may prove disastrous to the development of our commercial relations with Latin America. The causes or the misunderstandings that bring about expropriation create bitterness on the part of the Latins and the actual seizure of the properties creates bitterness on the part of the Americans. We cannot afford this bitterness if we wish to develop closer relations with the Latin countries. The effect that expropriation has on discouraging the attraction of American capital is particularly detrimental to the development of trade with the Latin countries, for trade flourishes more between nations that are highly developed than between nations with primitive economics.

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(1) The Journal of Commerce, New York, Aug. 27, 1940





## CHAPTER VI

### THE NEW ENTHUSIASM FOR LATIN AMERICA

With the outbreak of the war in September of 1939, Latin America suddenly assumed a brand new importance to the United States. People who had never heard the names of Latin American countries before heard them now; the man in the street became greatly concerned about the Nazis in the southern countries; exporters became enthusiastic over the prospect of a new boom in Latin American trade; the movies began to make more Latin American pictures; and even cartoonists found room in their strips for a few words of affection for our neighbors.

A newspaper editorial a few months after the opening of the war commented upon this increased interest in Latin America and attributed it directly to the war by saying that the conflict abroad has caused the people of the United States to realize the community of interests that bind this nation to the other republics of the hemisphere. This common concern, the editorial pointed out, relates not just to certain phases of political policy, such as relative strength and relative weakness in a period of world wide imperialistic aggression. Nor is it limited to economic well being, because of the havoc of commercial relationships produced by the war blockades and their attendant hazards. Of far greater importance than these two factors is the awakening to the fact that in this



hemisphere we have a peaceful land and the basis of a new civilization away from the brawls and grudges of the old world.(1)

This third factor brings out our claim that one of the reasons for this new interest in Latin America was that the people of this hemisphere, looking with dismay upon the self-destruction of Europe, became more determined than ever before to put inter-American relations on such a high moral and economic level that the nations of this hemisphere would be unlikely to war upon each other. We were suddenly impressed with the blessing of living in a peaceful land; we were thankful that this hemisphere did not, like Europe, have innumerable difficulties that could be solved only by resort to war, and we resolved to keep our own land peaceful.

Kendall Hoyt, in describing with a touch of cynicism the new enthusiasm for Latin America, brings out the political and economic reasons mentioned in the editorial.

"South America has recently blossomed forth with all imaginable press agentry as the new land of promise. Cut off from their European markets, the American Republics must now turn to the United States for their purchases. This will help boom our business and will provide traffic for our idle shipping, barred from trade with the belligerent countries. Wealthy South American tourists will spend their annual shopping tours in the United States, while our own tourists will visit our South American neighbors, incidentally dropping enough money to help build dollar balances which

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(1) Boston Globe, December 4, 1939



will build more trade. Through rapprochement as to cultural relations as well as in commercial matters, the Western sisterhood of nations will become united for the defense of the hemisphere."(1)

National defense was, according to Mr. Hoyt, the political reason for our new concern over Latin America and the promise of greater trade was the economic reason. We were afraid that Germany would attack us by way of Latin America and wanted to take all precautions toward avoiding any such happening.(2) The economic reason arose from the enforced withdrawal of Germany from the Latin American market. We believed that the United States would be called upon to fill the gaps left in Latin American imports by the latter countries' inability to receive goods from Germany.

Only one of these three reasons mentioned as being responsible for the new enthusiasm is conducive to bringing about the kind of friendly relations that may increase commercial relations with the southern countries, and that reason is the desire for a peaceful hemisphere. Any movement or any desire on the part of the people of the United States honestly to try in every way to put commercial and political relations on a high moral plane according to the golden rule will go a long way toward earning the respect and confidence of the people of Latin America

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(1) Hoyt, Kendall, "The New Deal Discovers South America, Land of Promise", The Annalist, Nov. 23, 1939, p. 660

(2) See also Lyons, Louis M., "Hull Tackles Our Achilles Heel", Boston Globe, July 21, 1940





and, therefore, can be considered as a powerful factor toward increasing the amount of trade and economic cooperation between the southern countries and the United States. But now consider the influence of the other two reasons for this new enthusiasm - (1) national defense and (2) increased trade. First, we decide that Latin America is vital to the defense of our country, so we immediately, in rather an alarmed condition, put on our best smile and stage a demonstration of our deep love for the Latins. But the latter are not so naive as we think; they know that we want something from them, and might even in their own interests grant our requests for the immediate crisis at hand. They will not, however, subject themselves to long-term commitments, for what assurances do they have that the friendly overtures of the United States will continue after the threat to our security is over? Is it not probable that our interest in them is not genuine, but the result of fear for our safety, and that once the crisis is over, we will immediately forget about them? And supposing in the fever of these exciting times the Latins do make long-term economic commitments with us, will they not feel angered and humiliated when we lose interest? The Latins would be in the position of a fiancée whose suitor's affections have suddenly cooled.(1)

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(1) Hanke, L., "Plain Speaking about Latin America", Harpers, Nov. 1940, pp. 588-590



In regard to national defense, an editorial in the Boston Globe says,

"We are bound to have an arrangement with the nations south of us for our own protection. This is the hard bottom of the matter. We would have no more necessary interest in Paraguay than in Albania except that South America is a region in which we feel it unsafe to allow any great power to get a foothold. ... We shall be lucky if we get through this new period of the rule of force in the world without having to return to the policy of landing marines." (1)

The second reason for our new friendliness toward Latin America is not, in our opinion, likely to awake a favorable response from the Latins, for any offering of friendship made with an ulterior motive in mind smacks of insincerity. Furthermore, the Latins can humanly be expected to resent our rejoicing at the prospect of new markets because the same events that open up markets for our products in Latin America shut down markets for Latin American products in Europe. In the eyes of the Latins we seem to be having a stroke of prosperity in taking Europe's place selling to Latin America while Latin prosperity is in a poor state because Europe's buying power as well as its selling power is curtailed. In any event, this reason for our friendly attitude toward the Latins is bound to be a short lived one for the southern countries are ready to trade again with Europe, new order or old order, whenever commercial relations can be resumed.(2)

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(1) Lyons, L. M., "Hull Tackles our Achilles Heel," Boston Globe, July 21, 1940

(2) Wood, Bryce, "South America Eyes Its Defenders," Christian Science Monitor, Boston, Nov. 23, 1940



The sound basis for creating the kind of feeling that will aid in increasing our trade with Latin America is one which includes an understanding of the Latins" culture and a genuine liking for them as people. We will discuss this basis for friendly feelings in a later chapter which will be concerned with the cultural relations work being done by our government and private agencies to create good will. We merely raise the question now in order to point out that the basis for our new enthusiasm for Latin America is not resting upon a firm foundation and in the long run does not promise that our affections will be returned.(1)

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(1) A recently returned traveller from South America quotes the Latins as saying that they cooperate with us now because they have no alternative, but as soon as the war is over and their dependence on us is relieved, cooperation will be more difficult.





## CHAPTER VII

### THE WAR AND POLITICAL RELATIONS

The political side of our relations with Latin America during the war underwent a completely new phase. Before the war our primary Pan-American interest, on the political side, "was maintaining peace within the Western Hemisphere, rather than guarding against danger from abroad. We were concerned chiefly with keeping the American republics from quarelling among themselves, settling such quarrels as did arise. Remember that as late as 1932-35, two of the South American countries (the two land-locked ones, Bolivia and Paraguay) were fighting each other over the Northern Chace."<sup>(1)</sup> Now with the outbreak of war and the resulting threat of danger from abroad there came into existence for the first time a genuine basis for a solid Pan-American front. We all became united for the preservation of that which every nation in the hemisphere has in common - the desire to retain political liberty of action. Instead of offering to straighten out the Latins' domestic affairs for them, which they did not like to have us do, we could now offer to defend them from aggression by an outside power.

"Hitherto, Pan-Americanism had been slow uphill work. The things that differentiate our twenty-one

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<sup>(1)</sup> McCulloch, J. I. B., Op. Cit., p. 7



countries have always been much more marked than any real or fancied similarity. The Latin American lands are quite different from one another, as any one knows who has spent any time there. For one thing, the racial mixture varies from one country to the next. Some Latin American peoples are almost entirely white, some are mostly Indian, some (Brazil, for example) have whites, Indians, and Negroes all mixed together. As between Latin America on the one hand and Anglo-Saxon America on the other, the points of dissimilarity are, of course, even greater. Here the obvious differences in historical background, national culture, language, and predominant religion have created fundamentally differing mentalities.

"Nor has the political development of our various countries been the same. It is true that all of us, except Panama, gained our national independence by shaking off the control of a European power. And though Brazil was an empire until 1889, it is true that all of us eventually adopted the republican form of government. Here the resemblance ends. When we talk of 'democracy' throughout the Americas, as we frequently do, we are talking of an ultimate ideal rather than a present condition. A few of the countries - where conditions are particularly favorable - have gone a considerable way in the direction of true democracy. In certain other countries, however, the term 'democracy' is simply meaningless."(1)

No longer do we have to tread on this dangerous ground of claiming common political and cultural ideals as the basis of Pan-Americanism. In the foe from abroad we have a real and not an imaginary basis for cooperation. It is true that the Latin nations do not recognize the threat to their independence as strongly as we do and that the danger of invasion to most Latins seems remote, but it is generally recognized by most of the southern countries that Hitler

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(1) McCulloch, J. I. B., Op. Cit., pp. 9-11



would like to see them flying the Nazi flag and that he would not hesitate to use force to accomplish his desire if he ever got the chance. The Latins are willing to cooperate with us in seeing that the Fuehrer does not get any such opportunity.(1)

When the war broke out in September 1939 we were not completely unprepared to act jointly. It will be remembered that as a result of the Good Neighbor Policy the American republics at the Eighth Pan-American Conference in 1938 had formally agreed to consult with each other should their security appear to be in danger. Accordingly, soon after the outbreak of the war the foreign ministers of the twenty-one republics, or their representatives, met in Panama from September 23 to October 3, 1939. The chief work of the conference was concerned with neutrality. First of all, the ministers drew up a declaration of neutrality, and then, because there are many interpretations of what neutrality means, they set up a permanent Neutrality Committee. The work of this committee is to make recommendations to the individual American nations and try to bring their neutrality policies into agreement. One of the ambitious projects of the Panama Conference in respect to

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(1) Wood, B., Op. Cit.

For a different view see McGuire, C., "Resentment as the Salvation of an Age", Catholic Alumni Sodality Letter, Boston, March 15, 1941. Professor McGuire says that the Latins are not the least concerned about invasion.





neutrality was to mark off a neutrality zone averaging 300 miles in width off the shores of this hemisphere. The neutrality zone has not been respected by belligerent nations as the Graf Spee incident well illustrates, but nevertheless, it did show that American statesmen could convene and agree on a common policy.

When, in May and June of 1940, Hitler's armies overran Europe and brought France to her knees, new perils threatened the Western Hemisphere. Germany might demand outright control of the American colonies belonging to conquered European nations, or she might allow the conquered nations to keep the colonies and control them indirectly through puppet governments in the various capitals. Any transfer of this sort would be violating our Monroe Doctrine.

The United States could have coped with this situation alone, but our new policy as a good neighbor calls for a consultation of all the American nations whenever an important issue arises affecting their common welfare. The minor delays of such a policy are considered much less important than having twenty friends for neighbors rather than twenty enemies. However, there is not much doubt in our mind of what the outcome would have been if the Latin countries had not, when consulted, reacted in the same fashion we had planned. Obviously, we were not going to have any Nazi outposts in this hemisphere even if the southern countries rejected all our proposals to deal with



the colony situation. The situation was going to be decided in the interests of United States defense, but if the cooperation of the Latin American countries could be gained by a little diplomacy, then so much the better. Friends are not so harmful as enemies and why cause bad feelings unnecessarily?(1) Fortunately, the problem was solved with the cooperation of the Latins at the Havana Conference in July of 1940.

After some difficulty, a Convention was drawn up by this Conference stating that

"If a non-American State shall directly or indirectly attempt to replace another non-American State in the sovereignty or control which it exercised over any territory located in America, thus threatening the peace of the continent, such territory shall automatically come into the provisions of this convention and shall be submitted to a provisional administrative regime."

The Convention provides for a permanent Inter-American Commission on Territorial Administration which decides what sort of regime shall be set up. Further topics discussed at Havana were common action against fifth columnists, economic solidarity, and military defense of the hemisphere. Critics of the Conference say that action taken in regard to the last mentioned problems was practically worthless.(2)

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(1) Lyons, L. M., Op. Cit.

(2) Ward, B., Op. Cit. Mr. Ward says, "In the opinion of Dr. Melo of Argentina the Conference failed to produce any satisfactory plan for permanent economic collaboration, and it is precisely in the economic sphere that the most vital issues of hemispheric defense are found."



Since the Havana Conference, conflicting reports have been received regarding our place in the affections of the Latins. For awhile after our leasing of bases from England there was a suspicion that the United States was getting dangerously close to belligerency and violating the spirit of the Havana Conference. This feeling died down when Mr. Hull announced that the bases were open to all the other American countries on the "fullest cooperative basis." (1) President Comache of Mexico said at his inauguration that the Pan-American doctrine "is the only hope for the salvation of civilization and international rights," and promised to cooperate in the building of a friendly continental life. (2) The President of Honduras, in a message to the opening of Congress said that Latin America "owes gratitude to President Roosevelt for the introduction of the Good Neighbor Policy in the international law of this continent." He also pledged support to continental cooperation. (3) From Brazil we have word that the United States and Roosevelt are well liked there. (4) James Farley, former Postmaster General, back from a vacation in South America, reports that the war has caused a great increase in friendliness toward the United States. (5) On the other

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(1) McCulloch, J. I. B., Op. Cit., p. 27

(2) The Christian Science Monitor, Boston, Dec. 2, 1940

(3) Ibid, December 6, 1940

(4) The Boston Globe

(5) The Boston Post, March 16, 1941





hand, reports from Uruguay have shown antagonism. The following quotation of a Uruguayan senator concerns efforts of the United States to obtain naval bases there. "South American Republics have plenty of reason to be on guard. We do not want Caribbean treatment repeated here. That's why we repudiate Yankee bases here." In spite of this kind of opposition, however, the plan was expected to go through.(1) In speaking of Uruguay it is interesting to note that last October we sent cruisers there to help settle a domestic uprising in the form of a Nazi plot to seize control of the government. The Uruguayan people, instead of shouting against "Yankee Imperialism", gave the cruisers a dramatic and overwhelming welcome.(2)

In February of 1940 there was a so-called River Plate Conference which may be evidence of an anti-United States attitude. The five countries around the River Plate - Brazil, Uruguay, Paraguay, Brazil and Argentina - formed a Convention which considers the establishment of an economic block of their own which will grant special concessions to its own members which it will not grant to any other nation. President Roosevelt sent the Conference a message wishing them success and stating that its purpose is in the true spirit of unity. The fact that the Conference sent sincere

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(1) The Boston Herald, Dec. 12, 1940

(2) The Boston Globe, October 3, 1940



wishes to the United States for the "prosperity of our sister nation" and the suggestion by one of the delegates that the Western Hemisphere might achieve true Pan-Americanism through a series of regional conferences tend to allay our fears of unfriendliness.(1)

The difficulty in evaluating the extent to which we have developed more friendly feelings with Latin America during the war is that we have no positive action as evidence upon which to base our judgment. We have only speeches and promises which do not mean a thing until they are put to a test. Also we have no way of knowing to what extent the loss of European markets has forced the Latins into our camp. The fact that the Latins' trade has suffered severely due to the English blockade of Europe has caused much suffering which can be alleviated to a large extent, for the present, by loans from the United States. It is our guess that the United States officials have not missed an opportunity to apply a little pressure toward cooperation in granting these loans. But, in spite of what may lie underneath the surface of our political relations with Latin America, it seems that any sincere actions on our part to protect this hemisphere for the benefit of all its nations is bound to result to our good in the minds of the Latins.(2)

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(1) The Boston Herald, February 4, 1940  
The New York Times, February 7, 1940

(2) McGuire, C., Op. Cit. Professor McGuire says that the Latins do not understand our foreign policy at all and do not understand just what we mean by defending the Hemisphere.



## CHAPTER VIII

### TRADE GAINS: FIRST YEAR OF WAR

The future of our Latin American trade looked extremely bright in September of 1939 to people who could not see beyond the horizon. Figures such as those presented below in Chart IV pointed out that with Germany's enforced withdrawal from the Latin American market due to England's control of the seas, there was room for increased American exports to the southern countries. Upon this assumption our export trade was expected to increase by 50%.(1) The products that we could be expected to sell and the countries that we could be expected to sell them in could be found by analyzing Germany's trade during 1938. The German's had their tightest hold on the Brazilian market. Here they were first in supplying wool yarn; second in cotton piece goods; first in iron bars and rods, wire and locomotives; first in electric motors; and second in rails. Argentine, the second largest German market, bought about half as much from Germany as she did from the United States. The Argentines bought machinery, iron and steel products, chemicals, drugs, and electrical equipment from the Germans. The latter supplied over half of Chilean imports of chemicals, drugs, and paints, and 40% of imports of glassware and ceramics. In Colombia the Germans were important suppliers of hardware, hand tools, barbed wire,

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(1) Business Week, September 9, 1939, p. 58





CHART IV

POSSIBLE MARKETS CREATED BY WORLD WAR II (1)

<u>Country</u>	<u>Imports From</u> <u>(in millions of dollars)</u>			
	<u>Germany</u>	<u>United Kingdom</u>	<u>United States</u>	<u>Total Including All Others</u>
Argentina	48.3	87.3	84.0	476.1
Brazil	73.8	30.7	71.5	295.4
Central America	13.0	4.2	37.0	70.7
Chile	26.7	10.9	28.6	103.5
Colombia	15.6	9.9	44.4	89.1
Cuba	4.8	4.5	75.2	106.0
Mexico	20.4	4.6	62.7	108.9
Peru	11.8	5.9	20.0	58.3
Others	<u>34.7</u>	<u>18.2</u>	<u>71.5</u>	<u>152.0</u>
	249.1	176.2	494.9	1460.0

(1) Business Week, September 9, 1939, p. 58



iron and steel products, and sewing machines. Peru imported \$12,000,000 worth of German rayon goods, metal and wood furniture, paints, household drug supplies, sporting goods, musical instruments, and tools. Since the United States was already in the Latin American market for everything from textiles to sewing machines and since there was not shortage of cargo ships, there seemed to be no good reason why we could not sell all these products to the Latins.(1)

The figures for our Latin American trade during the first world war gave us further reason to believe that we were going to have a trade boom with the southern countries. Our exports to Latin America increased from \$279,362,000 in 1914 to \$1,488,324,000 in 1920, or an increase of about 432%. Imports in the same period increased from \$467,946,000 to \$1,766,078,000, or an increase of about 277%.(2) It should be noted that although our exports increased at a faster rate than our imports, there was still a favorable balance of trade on the side of Latin America. Also it should be noted that on a dollar value basis our imports increased by \$1,298,132,000 as compared to an increase of \$1,208,962,000 for our exports. We left the Latins plenty of exchange with which to buy American goods.

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(1) Management Review, December 16, 1939, p. 416

Business Week, September 16, 1939, p. 53

(2) Hoyt, K., Op. Cit., p. 661



There is no doubt that predictions in regard to our increased exports have come true. Exports to twenty Latin American republics were up 50% for the first year of the war. This increase represented a total value of \$733,135,000 for September 1939 to September 1940 as compared to the equivalent period ending August 31, 1939. The chief reason for this increase in our exports was that the intensive maritime blockade put on by Britain and the subjection to war of many countries of Europe practically eliminated the Continent as a source of supply to the Latins. The fact that Europe, exclusive of Great Britain and Ireland, normally furnish 34.1% of Latin American imports illustrates the degree to which the Latin countries have been forced to turn to the United States for their purchases. Our animal and vegetable products, including lard, dairy products, leather, flour, potatoes, barley, hops, automobile tires and other rubber manufactures, and naval stores showed a gain of 26.4% to Latin America in the first year of the war. Textile fibers and manufactures increased 46.7%; wood and paper products, 79.2%; bituminous coal and petroleum were up 49.2%; our metals and manufactures industry exports were up 131%; machinery and vehicle exports plus aircraft, agricultural implements, and railroad rolling stock increased 21.8%; chemicals and related products increased 80%. This great diversification of our exports





and the large increase in them demonstrate our capacity to provide for most of the Latin American wants without any great effort.(1)

Not only were the Latins unable to buy in European markets; they also were unable to sell there, meaning that new buyers must be found for \$525,573,000 worth of raw products, or 28.6% of the normal exports of the Latin American nations. We have not been so successful in developing an outlet in this country for these surplus Latin American products as we have been in supplying her needs, although our imports have shown a marked increase. In the twelve months from September 1939 to September 1940 our imports from Latin America increased from \$468,999,000 for the twelve months ending August 1939 to \$615,915,000, or a little over 31%, for the same period ending in 1940. Vegetable food products and beverages constituted slightly more than half of the value of our total imports for the latter year and showed an increase of 14% over the previous year. Imports of textile fibers and manufactures were up 140%, mostly due to wool. Inedible animal products were up 63%.(2) It should be noted that our imports exceeded our

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- (1) Reprint from Foreign Commerce Weekly, U. S. Dept. of Commerce, October 12, 1940  
Thomas, E., "America's Trade in a Changing World,"  
National Foreign Trade Council, October 29, 1940, p. 2  
Crawford, L., "America's Foreign Trade in the First Year of the War," National Foreign Trade Council, October 31, 1940, pp. 5-9
- (2) Crawford, L., Op. Cit., pp. 5-11  
Thomas, E., Op. Cit., p. 2  
Foreign Commerce Weekly, Op. Cit.



imports by \$117,220,000 and thereby demonstrated that the results of this war could not be judged by the last war, for during the last war Latin America had a favorable balance of trade with the United States and, consequently, had plenty of exchange with which to buy from us. This problem of exchange proved a serious stumbling block to our trade relations with Latin America during the war as the next chapter will explain.



## CHAPTER IX

### WE BEGIN TO FACE EXCHANGE DIFFICULTIES

It is a well-known fact that no nation can think only in terms of selling, for the essence of foreign trade is that a nation in the long run can not sell more than it buys unless it is willing to leave the difference with its customers as investments or donations. Therefore, before we can sell to the Latins an additional amount of merchandise equal to that formerly supplied by Germany, we must first take the warring nation's place in buying; or we can take the precarious way of lending them money to buy from us. A third way that might make a little exchange available is the creation of a three-way business by which Latin America would sell to Europe and use the proceeds for purchases in the United States.(1)

This third method of creating funds with which the Latins might buy American products during the war has been a major disappointment, for due to German victories and the British blockade European markets are necessarily closed to the entrance of Latin American goods. The effect of the Latins' loss of their European market was felt upon our trade with the southern countries as early as May, 1940. A report in that month stated that "because of lost

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(1) Inman, S. G., "Planning Pan-American Trade," Harvard Business Review, Winter Number, 1939-40, p. 147  
Reprint from The Annals of the American Academy of Political and Social Science, National City Bank, Sept. 1940





European markets and exchange difficulties, the rate of growth (in trade) since the war has already slowed down and, according to foreign traders, will die out entirely unless some plan for stimulating trade is worked out."(1) Besides the loss of a market that bought about \$600,000,000 worth of products annually, the Latins lose approximately another \$300,000,000 worth of exchange because of England's wartime clearing agreement whereby all sterling exchange is blocked for purchases of goods in England.(2) In other words, as far as obtaining exchange with which to buy from us is concerned, the Latins have definitely suffered as a result of the war.

The expedient of granting loans to the southern countries to tide them over until better times has been resorted to principally through the Export-Import Bank. This bank was formed in 1934 in order to aid in financing and to help facilitate imports and exports. Its activities have been principally related to Latin America. In September of 1940 Congress passed a bill that greatly increased the role of the bank in developing our Latin American trade. The bank's capital was increased from \$200,000,000 to \$700,000,000 with the object of assisting "in the development

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(1) The New York Times, May 12, 1940, p. F-7

(2) Address by Nelson Rockefeller at Waldorf-Astoria Hotel, N.Y. City, Oct. 15, 1940, "Office for Coordination of Commercial and Cultural Relations between the American Republics", Business Week, Jan. 11, 1941, p. 56



of the resources, the stabilization of the economies, and the orderly marketing of the products of the countries of the Western Hemisphere."(1) Argentina, Brazil, Uruguay, Chile, and several of the smaller countries have received loans from the bank in line with our government's policy of bolstering the economies of countries whose normal commerce has suffered from the war. Argentina has been given the largest loan, a total of \$50,000,000 from the Export-Import Bank since June of 1940. The latter country has received a total loan from the United States Government of \$110,000,000, but \$60,000,000 of it was loaned from the Treasury Department's stabilization fund - a departure from the original concept of the fund, which was to stabilize the currencies of Britain and France in relation to the dollar.(2)

The loans solve the problem of exchange temporarily, but leave Latin American countries under the necessity of finding the dollar exchange with which to meet the payments as they fall due, so that the Latins either have to borrow more money from us or else export more to us. We can say, then, that loans do not create new sources of exchange supply. An exception to this statement may be loans that are used to build equipment - such as, highways, railroads, and factories - that eventually contribute to the amount of

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(1) McCulloch, J. I. B., Op. Cit.

(2) Business Week, December 14, 1940, p. 62



products that can be exported and thereby add to the supply of foreign exchange. An example of such a loan would be one that helped finance the proposed railroad connecting Santos, Brazil, with Arica, Chile. Such a road would provide an opening on the Atlantic for Bolivian oil and tin and would make available rich deposits of gold, iron, manganese, platinum, diamonds, and sapphires.(1) The bank has declared that its policy is to put emphasis on increasing the productive capacity of the countries to which it grants loans. Loans to Brazil for the purchase of railroad equipment, to Haiti for "farm-to-market roads," and to Chile for a highway between two important cities are examples of the sort of development loans that have been made by the bank.(2) To what extent the bank will be forced to yield to political pressure and grant loans to be used for unproductive purposes we have no way of knowing.

The first way we mentioned to provide the Latins with foreign exchange - increasing our buying from the southern countries - has already taken place to a certain extent as we have already seen in the last chapter. But our buying has not increased enough to justify our greatly increased exports. It will be remembered that we now have a favorable balance of trade with Latin America and thereby

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(1) Business Week, January 25, 1941, pp. 54 and 55

(2) McCulloch, J. I. B., Op. Cit., p. 53





do not provide them with enough dollar exchange with which to pay for all of their imports from this country. There is a good chance that this situation will be remedied some time in the future, however, for work is being done on all sides to try to increase our imports from Latin America. Our government has an Office for the Coordination of Commercial and Cultural Relations between the American Republics that is trying to increase our imports. It has recently planned to establish in each Latin American capital a Merchandising Advisory Service for the benefit of producers and exporters in all Latin American countries.(1)

Another kind of agency that is trying to increase our imports from Latin America is the Inter-American Economic Committee which was set up by the Latin American republics for the purpose of collecting information and seeking remedies for trade and financial dislocations due to the war. This committee has been meeting in Washington trying to increase Latin American exports to this country and building up industries in the southern countries. Before this committee a Latin American enumerated more than fifty products which could be marketed in the United States without competition from domestic sources. He also pointed to many articles formerly from Czechoslovakia, Germany,

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(1) Business Week, February 22, 1941, p. 67



Austria, and Poland which can be manufactured at the same cost, quality, and quantity in Latin America.(1)

As an example of the activity of private interests in increasing our imports from Latin America we have the proposed exhibition in New York of fifty tons of Brazilian merchandise samples. Mr. de Botelho, a New York businessman and the initiator of the exhibit, has already purchased his samples and is awaiting their arrival.(2)

Joseph Durrell, the senior vice-president of the National City Bank, cites an example that shows our banks are also helping to develop trade. The example is of a man in South America who by the aid of a bank loan was encouraged to establish a thriving business supplying the United States with a widely used product formerly obtained in China.(3)

It is too early to give any clear picture of the success that these agencies have had in increasing our imports from Latin America, although there is a large amount of evidence to prove that headway is being made. Below we present some of the reports that compose this evidence.

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- (1) Stern, F. M., "The War and Latin America," Bankers Magazine, Feb. 1940, p. 197  
(2) Business Week, Feb. 22, 1941, p. 97  
(3) Durrell, S., "Financing Latin American Trade," Burroughs Clearing House, April 1940, p. 12



In November, 1940, we heard that cheese of all kinds from Latin America had been introduced on a large scale to the American market.

"Gruyere, Parmesan, Limburger, Tilsit, Holanda, Sbrinz, Romano, Gouda, Reggiano, and 'Danish blue-type' cheese are all produced in the Argentine and Brazil markets and are finding an expanding market in the United States. Imports of blue cheese from the Argentine jumped from 313 pounds in 1939 to 123,908 pounds in September of 1940. ... During August (1940) a total of 434,570 pounds of Argentine cheeses of all types entered the United States."

The reason for the increased imports is that the European suppliers have been excluded from the United States markets because of the war. Most of the increases in our imports from Latin America are expected to survive the war.(1)

A report in October, 1940 stated that efforts are being made to increase our imports of manioc from Brazil. We now import most of this product, used in plastics, tapioca, and adhesives, from the Dutch East Indies.

"If research seeking expanded uses for manioc is successful, Brazil's enormous potential production may one day provide a source of foreign exchange that will compensate for that country's loss to the Dutch East Indies of most of the world's rubber markets."

The principal fault that American manufacturers have found with the Brazilian product has been its lack of standardization.(2)

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(1) Business Week, November 9, 1940, p. 60

(2) Business Week, October 19, 1940, p. 65





A report of December 14, 1940 announced that the first sizeable shipment of Argentine champagne ever consigned to the United States market arrived in New York in time for the holiday trade.

"Nearly 6,000 cases were unloaded ... and 12,000 additional cases of Argentine sparkling Burgundy, champagne, and Bordeaux-type wines will be in the hands of dealers as far west as Chicago and Houston before the end of the year. ... A permanent trade in Argentine wines is expected to develop ... Vermouth salesmen from the Argentine were said to have received orders for 310,000 cases, with deliveries to begin in January."(1)

Another item in November stated a number of new products were coming into the United States from Latin America; Brazilian pineapples that come into season just about the time that the Hawaiian variety goes out, hams from Uruguay said to be comparable to the famous Polish product, fresh fruit that has a different season from ours, pears, grapes, tomato paste, and extra-large fancy apples.(2)

Other products reported to be coming from Latin America include vegetable oils, glycerine, rock crystal, mica, ores and minerals - all of which were formerly obtained in other parts of the world.(3)

A late report announces that the Argentines have found a way to get around our quarantine ruling against

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(1) Business Week, December 14, 1940

(2) Business Week, November 16, 1940, p. 67

(3) The Christian Science Monitor, Boston, February 6, 1941





their beef and are now supplying several restaurants in New York.(1)

No one new import from Latin America will make any appreciable difference in the Latins' unfavorable balance of trade with us, but when they are taken all together and when the number of new products increases, a greatly eased situation should result in regard to their foreign exchange problem. The least that can be said is that we are taking steps in the right direction.

Recent developments seem to indicate that our government is modifying its plans to increase our purchases from Latin America in order to include and safeguard economic interests of Great Britain. For example, we are not taking all of Bolivia's tin ore because British interests want to continue to smelt it at home after the war and get the usual refiner's profits.(2) We ultimately buy half of the world's tin. Another example is that we allowed Brazil to underbid us on a cotton sale to Canada because it was to the interest of Britain that Canada conserve her dollar exchange for purchases of arms and war materials in this country. In this way we helped Britain and Brazil and left ourselves in the middle. A further

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(1) Business Week, February 22, 1941, p. 68

(2) Business Week, March 8, 1941, p. 61

If we bought all our tin from Bolivia instead of buying from the Anglo-Dutch monopoly, we could create 70 to 100 million dollars of exchange for Bolivia.



example is that we have allowed the British to store wool here in spite of the fact that the Argentines can not be induced to raise this kind of wool, which we must import, while there is this backlog of the Australian product stored here.(1) It seems that we will have to do some very fancy juggling if we want to combine all of our interests and still come out somewhere near the top.

The passage of the Lease-Lend Bill by Congress recently is apt to be a threat to the success of all the agencies working in behalf of increased imports from Latin America - in fact, to the whole future of our Latin American trade. The reason for this is that our government officials, full of zeal to help Britain, may feel compelled to divert some of our shipping from Latin America in order to make more vessels available for shipments of arms to the English. The latter are hard pressed for ships and are exerting pressure upon the United States to transfer ships from the American merchant marine to them. We now have a merchant marine fleet of 1300 vessels, which number is considered rock bottom to care for our shipping interests.(2) If we transfer any of these ships without replacing them by new ones, our trade with Latin America will have to suffer, and we may find out later that we have lost our big chance

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(1) Business Week, January 11, 1941, p. 50

(2) The Boston Globe, December 11, 1940



to increase commercial relations with our sister republics. Even now we have evidence that there is a shortage of vessels to care for our Latin American trade. A certain American importer is reported forced to wait for the arrival of his products here because of the shortage of northbound shipping space, caused by the commandeering of space by Washington for bulky strategic materials.(1)

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(1) Business Week, February 22, 1941, p. 67





## CHAPTER X

### SURPLUS PRODUCTS

The loss of European markets to the Latins did not concern us merely because our ability to sell was restricted by Latin America's inability to buy. Our chief concern was that Europe's decreased buying power caused huge quantities of surplus products to pile up in the southern countries. These surpluses brought with them serious problems, for most of the Latin countries have built their whole economies around two or three staple commodities and are, therefore, vitally dependent upon their export markets. The economic dislocation caused by this dependence upon the export markets could cause political upheaval which would seriously impair our access to vital Latin American raw materials. Bolivian peons, discontented with economic distress, could conceivably stage a revolt and thereby cut us off from Bolivia's tin supply.

Furthermore, an even greater danger looms in the background. If Germany conquered England and found the Latins with such large surpluses that they would be willing to take almost any offer to sell them, how could we reasonably keep Germany out of the market? Ordinarily, we would have no good reason to keep German trade out of the southern countries, but since experience has shown that economic



penetration on the part of Germany is generally followed by military penetration and political ties, we do not feel that we can stand by and forfeit Latin America to the Nazis.(1)

There have been two plans put forward to deal with the problem of the surpluses. One is the "cartel" idea of the "hemispheric solidarity" plan and the other is the quota system.

The cartel idea was announced last June after France had fallen and England seemed to have only a few more hours as a world power. The plan was rushed out quickly before it could be studied and its weaknesses ironed out.(2) According to the plan, the United States would buy up all surplus commodities through an "inter-American body" and thus be in a position of forcing Germany to deal through a central agency rather than letting her approach individual countries and thereby exert pressure to obtain unfair advantages. If the surpluses we bought could not be sold, they would be burned; and the cost would be written off to national defense.

The argument may sound good on the surface, but there are serious obstacles standing in its way. The expense alone would be enormous. In addition, what is going to keep the Latins from increasing their production

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(1) McCulloch, J. I. B., Op. Cit., pp. 44-46

(2) Business Week, January 11, 1941, p. 50



and thus increasing the expense of the cartel? Some kind of strict control would be needed, and even then there is no assurance that the control would be successful, for crop control has not been a success even in our own country. Furthermore, American farmers are skeptical lest the surpluses would compete with their goods. The Latins are afraid that after we bought up their products, a different administration might come into power and dump the products on the market, thereby depressing prices to ruinous levels. As a result, the Latins' economies would be in chaos.(1) Our comment is that the plan is an ambitious project but one that is likely to cause great dissatisfaction to taxpayers who are getting tired of paying for cotton bonfires and hogs that are not raised.

The cartel plan was shelved before the Havana Conference and no concerted attempt has been made to bring it into actual operation. It is possible that it was not seriously considered by our government but was merely used as a warning to Hitler. If the latter is the case, the warning had its effect for Germany became very much alarmed.(2)

The other plan for dealing with Latin America's surpluses is different from the cartel plan in that it does not attempt to control the sale of all surplus products

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(1) McCulloch, J. I. B., Op. Cit., pp. 46-47

(2) Business Week, January 11, 1941, p. 53





but simply regulate the price and the quantity of the products sold in the United States. A plan of this sort is expected to maintain a price that is not consistent with the supply of the products available and to regulate the amounts that each country can sell here in order that one country will not drive the price down by competing with other countries. The first product to have a quota system was coffee. Under the system there is a control committee composed of representatives from fourteen Latin American countries and a representative from the United States to safeguard this country against runaway prices. The hope of the committee is to hold shipments to the United States at a normal level of about 15,000,000 bags a year. As a result of the program, coffee prices jumped more than two cents a pound. Negotiations are now going on (February) to put cocoa on a quota system also, and it is expected that the Latins will appeal for aid in handling surpluses of wool, wheat, corn, cotton, and meat.(1)

If the quota system is deemed necessary for national defense, the cost of it can be justified and considered as a special defense tax upon the consumers of the quota products. Or if it is just a temporary means of helping a sick neighbor, we might consider the plan as worth its cost as a builder of goodwill providing it is administered in such a way that we do not appear too much

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(1) Business Week, October 5, 1940, p. 63  
Ibid, February 22, 1940, p. 62





like a buyer who pleads to be charged a higher price than the salesman is asking. We must keep our dignity or else we will be just paying a higher price for our products and getting nothing in return.

If the quota system is considered as a long-term plan rather than as a temporary expedient, it is apt to be very detrimental to the development of our Latin American trade, for an artificial price upon commodities will encourage their production on an uneconomic basis and thereby prevent productive energy from finding economically justified outlets. In this way we will always be dealing with surpluses, and producers will have no incentive to turn to the production of other goods. An alternative view to this one is that the quota system may have the effect of bringing about a gradual and orderly decrease of production of surplus products, because the individual countries, seeing that they can sell only a certain amount of quota products, will cease producing an amount above this figure and turn to the production of other products. In either case, the people of this country pay the cost.



## CHAPTER XI

### CULTURAL RELATIONS

Cultural contacts with Latin America are enormously important because unless we have an understanding of the customs and philosophy of the people of a foreign country, we are not likely to create the kind of feelings that promote friendly political relations and consequently the kind of relations that promote trade. Mutual understanding and confidence are fundamentals that we must not ignore.

The government took the lead in improving our cultural relations in 1938 by setting up a Division of Cultural Relations in the State Department.(1) The Division held four conferences in the fall of 1939 on inter-American relations in the field of art, music, education, and publications, to which important people flocked from all over the country and at which useful ideas fairly burgeoned. But all of the ideas involved money and there was very little forthcoming. Besides the lack of money there were all sorts of restrictions put on the Division in order to keep it from functioning as a high pressure propaganda agency such as the Nazis have in Latin America.

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(1) Most of the material in this chapter is taken from Hanke, L., "Plain Speaking about Latin America," Harpers, November 1940, pp. 588-596



Another agency set up by the government has not been any more successful. The Inter-Departmental Committee on Cooperation with the American Republics was established at about the same time as the Division of Cultural Relations. Its purpose was to enable the various government agencies (Smithsonian Institute, Department of the Interior, Tariff Commission, Maritime Commission, Federal Works Agency, Civil Aeronautics Authority, Department of Justice, Public Health Service, Department of Labor, Department of Commerce, and Library of Commerce) to work out a general program for improving relations with Latin America. A million dollar plan was drawn up, but at the last moment it was decided to make each agency present separately its own part of the proposed program in its own deficiency bill. This had the effect of killing the bill and disintegrating the solid front.

Last fall Nelson Rockefeller accepted the position of Co-ordinator of Commercial and Cultural Relations between the American Republics and it was hoped and expected at the time that he would put new life into the movement. It is too soon to judge the results of Rockefeller's efforts. He is planning an extensive advertising campaign in the Latin countries in order to induce the Latins to come to the United States and get acquainted. He has organized a bureau to welcome the visitors and help





them arrange travel facilities.(1) The commercial relations are so serious, as we have seen, that perhaps he has not had much time to devote to the cultural side.

The entrance of private interests and foundations into the Latin American cultural field has been a disappointment in most instances. The Guggenheim and the Rockefeller Foundations are notable exceptions, but their work is in health, and the social sciences. The humanities are neglected. The reasons for this may be that the private foundations in this country feel that there is too much politics involved, that we do not have the personnel to carry on Latin American work, or that the Latin American institutions do not show enough promise of survival to justify support. But whatever the reasons, Latin America still remains one of the great relatively virgin areas awaiting scholarly investigations.

Recently the motion picture industry has been encouraged to produce more Latin American pictures as a means of furthering goodwill in the Latin countries. But it is said that the moving pictures thus far have brought about more ill feeling and misunderstanding than anything else. A case in point is the picture about Juarez. This picture misrepresents Latin American history and thereby contributes to resentment and misunderstanding. To the

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(1) Business Week, February 22, 1941, p. 68  
News Week, November 11, 1940, p. 47



people of Latin America the outgrowth of the motion picture is a conception of the United States as a people living in materialism without spiritual guidance. They picture the United States as a place of business and advertising, of perpetual motion and artificiality, and consequently they are undermining any rational conception of the country as Christian.(1)

In the same category as the motion pictures we have the radio. The broadcasting interests in this country are making American programs available to larger Latin audiences than ever before by the construction and operation of new stations in this country and by the formation of a chain of local stations in the southern countries.(2) The value of the radio depends upon the success the broadcasting companies have producing the kind of programs that are inducive to creating good feeling toward the United States.

The newspapers are not the goodwill workers that they might be either. They may help by sending honest news to the Latin American countries and thereby thwarting the untruths of the Nazis, but they certainly do not help Americans to understand the culture of the Latins. We hear much about Nazis in Latin America and Hitler's designs upon

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(1) McGuire, C., "Resentment as the Sanction of an Age,"  
Catholic Alumni Sodality Letter, Boston, March 15, 1941

(2) Business Week, Jan. 4, 1941, p. 44



the countries, but we rarely hear anything about the every day activities of the Latins that would help us to understand their customs, ideals, and thoughts. Also, this emphasis on the Nazi menace is apt to make the Latins feel that cultural work is merely a subterfuge to get naval bases or to thwart Hitler's agents and not a genuine movement to get acquainted.

In our criticisms of the cultural relations work we should be fair-minded enough to realize that developing understanding between peoples that are so widely diverse in their cultures and backgrounds as are the Latin nations and the United States is not a job that can be accomplished overnight. We must be patient and persevering. In the end, perhaps after generations, we probably can create better understanding and then we can feel that all of our efforts have been well rewarded.



## CHAPTER XII

### THE FUTURE: INDUSTRIALIZATION OF LATIN AMERICA

The preceding chapters of this paper have been concerned principally with the development of our trade with Latin America from 1933 to the present. We turn now to a survey of the factors that are likely to influence our future trade with the southern countries. The first of these factors is the industrialization of Latin America.

The industrialization of Latin America began in about 1880 on a small scale. Its growth has been fostered by a natural mechanical ability of the Latin population, by huge reserves of raw materials, and by an abundance of water power. The drawbacks have been the lack of coal; a small population; a relative shortage of capital; and preferences on the part of the population for land owning, politics, and professions rather than for industry. These drawbacks have been partly offset in recent years by various new factors, namely the increased population, efforts to increase the standard of living of the people, the growth of nationalism and business spirit, and revolutionary technological changes profoundly affecting the basis of industrialism.

In the future the growth of transportation facilities and the increased populations will supply larger markets and larger industries. Today the various countries and parts of countries are largely split up into units with





small populations and with no transportation connections. The result is that the market either prohibits industries altogether or else limits them to the manufacture of articles that have an optimum point of production consistent with a small output. It is evident that industries with high fixed costs cannot operate under this set-up, but articles requiring a minimum of fixed costs and a maximum of variable costs should be able to prosper. We find that this is the actual case, for the Latins are active in the manufacture of food preparations, beverages, animal by-products, cotton cloth, knit goods, shoes, hats, furniture, printing, pottery, glassware, pharmaceuticals, soap and ceramics, building materials, cigarettes, woolen goods, beer, leather, and iron and steel products on a small scale.(1) Practically all of the products are the sort that can be expected in the primary stages of industrialization. Their manufacture is relatively simple and the fixed costs are small. As yet the Latins are not able to satisfy all of their needs in any of these fields, but they can be expected to be able to do so in the future. Before the industrialization process can advance at a rapid pace, the scarcity of capital will have to be remedied. In this connection the Latins should take steps to place their credit on a strong basis in order to be able to attract American capital.

(1) Wythe, G., "The New Industrialization of Latin America," Journal of Political Economy, April 1937, p. 216



As far as can be determined right now, the most probable effect that this industrialization will have upon our exports is merely to change their character. Experience shows that this is the effect that it has had upon our exports to Latin America in the past. In 1889, breadstuffs and provisions, together with such natural resources as lumber and petroleum, comprised the great bulk of United States exports to Latin America. By 1938 only 10% of total volume consisted of foodstuffs while 51% consisted of manufactures.(1) The fact that Latin America lacks sufficient coal and other materials for the production of heavy steel production is another reason for believing that the character of our exports will be changed rather than the volume. The Latins, unable to produce their own heavy steel manufactures, will manufacture only consumer goods and will turn to us for heavy producers' goods. In this way we can supply the Latins with road building machinery, the steel for bridges, cars and engines, heavy industrial machinery, and electrical equipment. The last reason for believing that merely the character of our exports will change is that as the Latins' standard of living rises we can expect to increase our sales of sporting goods, radios, moving pictures, and other luxuries outside the realm of the easily manufactured or necessary articles such as the Latins are concentrating on now. It is complexity that

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(1) Wythe, G., "Fifty Years of Inter-American Trade," Pan-American Bulletin, April 1940, p. 281



creates needs and markets; our trade with highly industrialized Britain is ordinarily larger than with any other country, not in spite of the fact that both countries are highly industrialized, but because they are highly industrialized. There will be a great deal more complexity in the Latins' economies as their manufactures increase and as their social programs raise the standard of living of the populations.

It is possible that the industrialization of Latin America will solve the problem of surplus products. If the Latin countries are able to increase their manufactures, a large part of the productive activity used in the production of raw materials can be put to work manufacturing goods for which there is a ready market. In this way Argentina could conceivably increase her manufactures and at the same time decrease her production of surplus products such as wheat. An alternative to having the surplus problem solved by greater diversification in each country would be to have some countries continue to produce their surplus goods but to have other Latin nations manufacture them. In other words, the economy of the Latin American countries as a whole would be diversified, but specialization would be found in practically every country. As examples of this alternative, Argentina could exchange her surplus wheat with Chile for copper manufactures made out of surplus Chilean copper. Brazil could manufacture her surplus cotton





and exchange the cloth for Mexican shoes made out of surplus Latin American hides. Venezuela would find a larger market for her petroleum and petroleum products as a result of the growth of industrialization. These cases are only an illustration of what might be expected. The disposal of the surplus products would run hand in hand with the satisfaction of a large part of the Latins' requirements for manufactured products.

The greater diversification of Latin America's economy on the whole under the above scheme would help stabilize the economies of the individual countries and put them on a strong bargaining basis in case of a German victory in Europe. With their present dependence upon a few staple commodities for export, the Latins are in a poor condition to refuse any sort of a Hitler bid to relieve them of their surpluses. With the development of home markets this dependence would not exist.

There is a possibility that the nationalism of the southern countries, as can be witnessed by the tariffs to aid domestic manufacturing, will lead the individual countries into an effort to attain self-sufficiency and thereby decrease the amount of trade that we can do with them. One reason for doubting the fulfillment of this possibility is that the extremely high prices that would follow are contradictory to the Latins' policy of keeping prices within the reach of the purchasing power of the people in order to help raise their standard of living.



Mexico recently lowered her tariff barriers at the expense of her domestic manufactures in order to lower prices. Further reasons why efforts for self-sufficiency are not likely to be made are, first, the Latin countries have such an obvious advantage in the production of raw materials that self-sufficiency would be extremely unprofitable, and, second, Latin America is composed of several countries that have no solid basis for cooperation and none of which has sufficient resources of its own to become self-sufficient.

Recently the claim has often been put forward that industrialization of Latin America will enable the southern countries to obtain a large amount of exchange with which to buy more products from the United States. By continuing to export raw materials that are essential to the rest of the world the Latins are expected to maintain their export markets but are expected to decrease their imports by producing at home a large part of their requirements for manufactured goods. The result of such a condition would be an increased favorable balance of trade for the Latins which would be available for purchases in the United States. This claim is shortsighted, for it is evident that this whole hemisphere cannot continue indefinitely to have a favorable balance of trade in its relations with the rest of the world unless it is willing to allow the excess of exports over imports to be considered a gift to the rest of the world. If we are to increase



our trade with Latin America in this way, we must be prepared to increase our purchases from the rest of the world in order to restore its unfavorable balance of trade with Latin America. Furthermore, the use of blocked currencies, which can logically be expected in a post-war bankrupt world, will restrict the Latins' purchases to countries which buy in Latin America.

A factor that is likely to impede the progress of industrialization in Latin America is the poor credit rating of many of the southern countries. United States citizens had invested in South American bonds in 1939 a par value of \$963,000,000, an amount larger than that invested in any other geographic area except Canada. Of this large amount, 70% was in default. The income received from the United States holdings of South American bonds during 1938 was only 1.1% of par value, a low as compared with other bonds throughout the world. The experience with Central America is equally dismal, but the amount is comparatively small. It is hardly conceivable that Americans are going to be induced to invest further in Latin America until existing debts are honored.(1) The present credit rating of the Latin countries can be determined by observing quotations on their bonds. These quotations run all the way from 7% to about 80% of the par value of the bonds.(2)

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(1) Hoyt, K., Op. Cit., p. 661

(2) The Boston Herald, March 12, 1941



At present there seems to prevail a hope that industrialization can be used as part of a method to develop a self-sufficient hemisphere. Since the development of the resources of Latin America also plays a part in this plan, we will pass over for the time being the question of a self-sufficient hemisphere.





## CHAPTER XIII

### THE FUTURE: DEVELOPMENT OF LATIN AMERICAN RESOURCES

The second factor that is likely to influence the future of our Latin American trade is the development of the natural resources of the southern countries. This factor is closely connected with the problem of increasing our imports from Latin America, for by developing in Latin America adequate production of materials which we ordinarily buy elsewhere, we can supply the Latins with more foreign exchange with which to buy more goods from us.

In an earlier chapter we mentioned some of the results of the efforts that have been made to increase our imports from Latin America. The success that has been achieved is spectacular, but by no means has the list of possible imports from Latin America been exhausted. Looking at the following chart we find that, with the exception of sugar, nuts, waxes, oils, tin and cacao, Latin America can meet all our import requirements of the products listed. Yet in no case do we purchase all of our needs for these products in the southern countries. The reason why we buy elsewhere is often a mere matter of lack of standardization of the product, poor transportation facilities, or some other factor that could be overcome with the proper technical direction. If we could succeed in developing the resources of Latin America in regard to just these products,



CHART V

EXPORTS OF TWENTY LEADING COMMODITIES FROM  
TWENTY REPUBLICS OF LATIN AMERICA

Countries of Destination  
(thousands of dollars)

<u>Commodity</u>	<u>Value to All Other Countries</u>	<u>U. S. Imports from Other Than Twenty Latin American Republics</u>	<u>Per Cent of Imports from Latin America to U.S. Total Imports</u>
Petroleum	280,554	20,429	51.7
Coffee	99,968	4,009	2.9
Meats	118,389	20,252	68.1
Sugar	32,322	50,702	38.9
Copper	69,799	10,957	30.4
Wool	85,047	14,839	65.6
Cotton	74,955	7,205	74.9
Metals, other than copper and tin	42,285	20,722	61.1
Hides and skins	47,598	20,092	67.2
Wheat	61,438	2,542	99.9
Linseed	44,224	218	1.1
Corn	59,299	26	10.1
Nuts, waxes, oils, etc.	18,090	79,635	83.0
Nitrate	18,887	43	0.4
Cereals, except wheat, corn, linseed	29,743	4,244	99.4
Bananas	5,890	10	0.03
Tin	24,392	44,400	98.9
Cabinet woods, lumber and quebracho	16,618	17,353	78.3
Cacao	7,208	8,031	39.9
Fibers (henequen, etc.)	3,429	69,094	93.0
U.S. total imports from other coun- tries		394,803	

Latin American Section, Division of Regional  
Information, Bureau of Foreign and Domestic  
Commerce, Department of Commerce



the Latins would have an additional \$394,000,000 of exchange with which to buy more products from us. Proper technical assistance, both government and private, should be instrumental in obtaining for the Latins part of this \$394,000,000 in the future.

Besides these products which the Latins are now producing in sufficient quantities to satisfy all our requirements, there are other products which they could eventually produce enough of to satisfy all our wants. Three cases in point are rubber, quinine, and coconuts. For centuries Latin America was the natural habitat of the first two of these products, but recently plantations for growing them have been developed in other parts of the world with Latin American stock, and they have succeeded in driving the American product out of the market. The third product, coconuts, is extremely adaptable to production in Latin America, but in spite of that we import most of our coconuts and coconut products from other sources. In these products and in others such as aboca and kapok, the superior methods of production that have been achieved by the old world can easily be adopted in the Latin American countries with a little help on our part.(1) There is a third group of commodities that can also help swell our imports from Latin America. This group consists of products

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(1) Wilson, C. M., "Buy Hemisphere Products," Harpers, Jan. 1940, pp. 147-155





that we import from the southern countries in small quantities, but production of which could be increased enough to satisfy all our needs. These products, not listed on the chart of the twenty leading commodities of Latin American exports, consist principally of pyrethrum, industrial diamonds, chromite, platinum, manganese, iron, and vanilla beans. George Wythe, an authority on Latin American trade, estimates that we can increase imports of products in all three groups combined by about \$200,000,000 above 1936-38 trade figures.(1)

The present search for sources of strategic national defense materials is apt to cause in the near future aggressive action on the part of our government in developing Latin American resources. The southern countries already have available five of the strategic materials listed by the Army and Navy Munitions Board as being products "for which strict conservation and distribution control measures will be necessary." These five products are antimony, manganese, mercury, quartz crystal, and tungsten. There are possibilities of developing supplies from Latin America of several other of the fourteen strategic materials. They are mica, chromium, coconut shell char, manila fiber, quinine, and rubber. The last three of these products would take some time to develop and would not be available for

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(1) Wythe, G., "The New Industrialization of Latin America", Op, Cit., pp. 207-228



any immediate crisis in sufficient quantities for all our needs.(1)

It is practically a certainty that the rich resources of the southern countries will eventually be developed. A plum so rich and juicy as Latin America cannot escape for long the notice and avarice of the world. If we wish to be in on the feast, we should start preparing for it now. An army of technicians and a wealth of capital must be sent to the southern countries immediately to start developments before other countries can get a foothold. To reap the gains of our labor in trade, we must conclude trade agreements that will serve to guarantee us larger markets in Latin America as our purchases there increase. The trade agreements should also serve to give the Latins enough confidence to make long-term commitments in developing their resources.

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(1) Foreign Policy Reports, August 1, 1940, August 1, 1939



## CHAPTER XIV

### THE FUTURE: A SELF-SUFFICIENT HEMISPHERE

Since the war in Europe has begun, an opinion seems to have grown among the people of this country that the desired effect of our commercial relations with Latin America is to bring about a hemisphere that is self-sufficient in the satisfaction of all of its wants. This self-sufficiency would be accomplished by the two factors that we have already discussed in preceding pages, namely, industrialization and the development of Latin America's resources. It is expected, as we have seen, that the industrialization of Latin America would have the twofold effect of disposing of surplus products and satisfying a large part of the Latins' requirements for manufactured goods, so that they will no longer be dependent upon export markets. The development of the natural resources of the southern countries is expected to supply the hemisphere with all the materials that this country cannot supply. The final result is supposed to be a large economic block producing all its own products and having a flourishing trade between its individual units. The plan is far from being incapable of accomplishment. We have most of the necessary materials and we are rapidly gaining the Latins' confidence, which is, of course, necessary before we can obtain their cooperation for the plan.



Besides being capable of accomplishment, the plan has a large measure of justification behind it in spite of the fact that it ignores to a large extent the principle laid down in the law of comparative advantage. The rest of the world, because of its frequent wars, has an extremely unstable influence upon our economy and the economies of Latin American countries. Our sources of supply are interrupted, our markets are shut down, and our standard of living is lowered by our intensive production of war materials for which we receive nothing in return. Prices skyrocket and speculation booms, resulting in periods of false prosperity and depression and an unstable purchasing power of money. The development of a peaceful, self-sufficient continent would be inexpensive insurance against the disorders caused by the chaotic conditions of the rest of the world.

In spite of the justification for a self-sufficient hemisphere, the plan is impractical in the final analysis because it promises greater trouble than the disorders it aims to avoid and because it is not in the spirit of justice. Other parts of the world need raw materials desperately and they mean to have them even if obtaining them means resort to war. But aside from the prospect of war, justice demands that the rest of the world be able to purchase from abroad products that are not available at home. We can carry self-sufficiency to the point where the rest of the world is able





to obtain all of its requirements for raw materials, but no further. Even carrying self-sufficiency to this point may mean a greatly increased volume of trade for us with Latin America, for eventually, with increased efficiency on the part of the Latins, the amount of productive energy that will have to be directed toward supplying the needs of the rest of the world for raw materials may be only a small part of the total, thereby leaving available a large amount of productive energy to be used for increased trade with the United States.



## CHAPTER XV

### A PROGRAM FOR THE FUTURE

If we Americans wish to adopt an active program designed to increase our trade with the southern countries in the future, there are certain general lines of action that we must follow. These are social, political, and economic in their origin.

On the social front we are faced with the necessity of increasing our cultural relations activities. The form of these activities should take into consideration that relations with the Latins are not something new but have existed for centuries and have been of diverse sorts - some have been on the shady side and some have been in the spirit of the Good Samaritan. We can not ignore the history of these relations in building for the relations of the future. Furthermore, if we are going to foster cultural relations with the Latins, we should know what their culture is. No one as yet has been able to give any clear definition of the difference between American culture and European culture, and yet we do not understand the Latins and they do not understand us.

If we do embark upon a real cultural relations campaign, it would be better to keep the cultural part separate from the commercial. We should provide exchange of ideas, publications, students, and teachers because we



believe that this exchange is good in itself, and not because we hope to sell more goods or get some naval bases. The money would probably be spent to more advantage if it is administered by recognized cultural agencies such as the American Council of Learned Societies, the Institute of International Education, the American Library Association, and other similar institutions.(1)

A stimulation of travel in Latin American countries, a translation of their books into English, the encouragement of the study of the Spanish and Portuguese languages and the study of Latin American history will aid to a large extent in greater understanding of the Latins.

On the political side of our relations with Latin America we must definitely make up our minds just what our policy is in respect to the southern countries. We have no course of action to guide us in our relations with the southern countries except what is laid down by the administration that happens to be in power. A change in administrations is apt to cause an abandonment of all our present efforts to woo Latin America so that the Latins are discouraged from making any long-term commitments. We should, as a nation, make up our minds to what extent we are willing to go in developing our relations with Latin America and then write into our foreign policy certain guiding lines that must be followed by whatever

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(1) Hanke, L., Op. Cit., pp. 593-596





political party is in power. Only in this way can we develop effective long-term cooperation between this country and the Latin American nations.

On the economic side there are several things that we must do.

(1) We should take a thorough inventory of the resources and production possibilities of the Western Hemisphere. Only in this way can we make any plans for the future. We must know what we have to work with before we can map out a policy or a plan of action.

(2) We must develop all possible resources of the southern countries. The development of strategic materials in Latin America will strengthen our economy in case of war and the development of all the resources will give the Latins more exchange with which to buy more goods from us.

(3) We must develop some means of overcoming the surplus products problem. One way that this can be done, as we have already seen, is by the growth of industrialization in Latin America. A second way it may be done is through the development of non-competitive agricultural products, such as kapok, rubber, quinine, coconuts, and silk. The productive energy used in the creation of these materials, for which



there is a shortage, would replace the productive effort now used in the creation of surplus products. A start has already been made in this direction by our government as is evidenced by a grant to the Department of Agriculture of \$500,000 for experiments in the development of rubber in Latin America.(1) A private effort in this direction is evidenced by Henry Ford's \$20,000,000 rubber plantation in Brazil. A third way that might help in the solution of the surplus products problem is through greater inter-American trade. Trade between the Latin countries has been retarded through their concentration on trade with the rest of the world, but now the war has shut off export markets and has, consequently, given inter-American trade a great impetus. Trade figures for the southern countries show that there are definite possibilities, on the basis of existing production and consumption, of the Latins being able to help relieve one another of surplus products. Bolivia can import more petroleum from Venezuela and more preserved milk from Argentina. Brazil can increase its

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(1) Foreign Policy Reports, April 1, 1940, p. 132



purchases of Latin American petroleum and petroleum products. Chile and Colombia can buy more beef and other animal products from Argentina and Uruguay. The Dominican Republic can buy more Latin American hides, skins, foodstuffs, wool and petroleum. Guatemala can import lard and foodstuffs from Argentina. Honduras can purchase more petroleum from Venezuela or Mexico and more leather from Argentina. Panama and Paraguay can import increased amounts of several agricultural products from their neighbors. These examples do not exhaust the list by any means. All of the cases presented have been chosen principally because their influence would either not affect our exports of those materials or would affect them very little.(1)

(4) We must aid in the expansion of industries in Latin America for a diversification of the Latins' productive activities will stabilize their economies. Furthermore, the higher standard of living that will probably result from industrialization will help increase our trade with the southern countries.

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(1) "Imports into the Twenty Latin American Republics of Leading Commodities by Trade Regions," Department of Commerce, June, 1940



(5) We must develop adequate transportation facilities in Latin America so that industries can expand and so that the huge reserves of raw materials can be made available for trade. In a study made by the Brazilian Institute of Geography and Statistics it was found that Brazil possessed tremendous resources of raw materials that were waiting for transportation facilities before they can be developed.(1)

(6) We must continue our policy of reciprocal trade agreements, for they can be a means of consolidating our gains in the southern countries. By means of reciprocal reductions in tariffs we can be assured that our increased purchases in Latin America, resulting from the pursuit of the programs already outlined, will be accompanied by increased sales to the Latins. Without agreements of this sort we may find that Europe and not the United States will be the recipient of the benefits of the greater amount of trade made available by industrialization and the development of raw material resources in Latin America.

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(1) "Brazil - 1938," Brazilian Institute of Geography and Statistics, 1939





(7) We must be business-like and practical enough to be able to make the Latins a good offer. It is probably only through an appeal to their pocketbooks that we can gain their cooperation. When and if we do gain their cooperation, we must make them realize that cooperation means active participation and not just passive support. In this connection the Latins should not be encouraged to rely entirely upon our developing markets for their products in this country, but they should be encouraged to put forth every effort of which they are capable to develop markets here on their own initiative.

Undoubtedly the program first outlined is full of uncertainties and difficulties which we may or may not be able to overcome. The success that we are likely to have depends mostly upon the amount of effort that we put forth. If we use enough skill and patience, we can probably make the Latins forget hatreds of the past and look to a glorious future, for grudges do not last forever unless they are constantly fed. The development of industrialization and of natural resources rests purely upon technical considerations once the Latins are willing to cooperate with us. Our engineers rank with the best in the world and should be able to overcome all obstacles of



a technical nature. All we need is sufficient effort on the part of Congress and private agencies to put their skill to work.

If the program that we advocate is followed with skill and perseverance, our trade with Latin America should reach heights hitherto never before attained and should bring with it for the people of this hemisphere a standard of living much higher than any the world has ever known.



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